

I. UNDERSTANDING THE DEMONSTRATION NARRATIVE REPORT REQUIREMENTS

A. Thoroughly read the IAAO's "Guide to Real Property Demonstration Report Writing: Residential Property" ©2014

1. Main goal is to demonstrate the candidates' knowledge of the appraisal process and the ability to apply that process to an actual property.
2. Key is the candidate's ability to support all assumptions, conclusions, and judgments contained in the report with an analysis of actual market data.
3. The grader will use the same IAAO "Guide" to grade your report. If the "Guide" states that something should appear in the report, it must be included or points will be deducted.

B. Grading of the Narrative Report

1. The Narrative grading Committee consists of Kim Jensen, Hennepin County, Rebecca Malmquist, City of Minneapolis, and Bob Wilson (Chair), City of Edina
2. The MN State Board of Assessors grading process
 - a. A completed Grading Request for the Narrative form must be submitted with the grading fee to the Minnesota State Board of Assessors. Submit your Narrative Report for grading on the [Assessor Licensing System](#).
 - b. After the narrative and grading fee are received, the Board Secretary forwards the report to a grader.
 - c. The grader will spend 6-12 hours thoroughly examining and grading the report. Comments are required for each item graded "C" or lower.
 - d. The grader forwards the graded report to Grading Chair who reviews the report and the grading sheet
 - e. A copy of the grading worksheet can be found on pages 63-67 of the IAAO "Guide".
 - f. A minimum of 75 points, including at least 53 points in Part 4, are required for a passing grade.
 - g. If the report fails the first grading, it will be returned for corrections along with the grading sheet. Another grading fee is required when the revised report is resubmitted.
 - h. If the report fails twice, the candidate is required to write another report on a new subject property. Another option would be completing a Residential Form Appraisal Report and the Residential Case Study Exam

II. STARTING THE APPRAISAL

A. Organizing a Work Schedule

1. FINDING TIME!
 - a. Although it varies greatly, the average time to write a demonstration narrative is between 120 to 180 hours
 - b. Planning the project and setting a timetable can help the writer use time most efficiently
 - c. Once started, the primary objective is to remain motivated and maintain momentum. Although you may need to leave the work for periods of time, this may actually be helpful. However, provide yourself with a timetable for returning to the project.

Starting the Appraisal (cont.)

B. Resource Material (General)

1. Sample narratives.
 - a. Sample narrative reports can be found on the member resources page of the MAAO website
 - b. If using other passing narratives as samples, it is important to read both the grading sheet and the grader's comments

2. Textbooks for basic appraisal information.
 - a. *"Appraising Residential Properties"*, Appraisal Institute
 - b. *"The Appraisal of Real Estate"*, Appraisal Institute
 - c. *"Property Assessment Valuation"*, IAAO
 - d. Sources of definitions must be acknowledged either in body of report or as footnotes.

3. Use the IAAO's *"Guide to Real Property Demonstration Appraisal Report Writing: Residential Property"* ©2014
 - a. Follow this guide faithfully and your demonstration report should pass with no major problems.

4. Keep in contact with a narrative report grader or other mentor throughout the writing process to ensure that you are on the right track for writing a successful report.

C. Resource Material (Specific)

1. City/Neighborhood Data.
 - a. City/County Planning Depts. (Community Profiles—MN. Dept. of Trade and Econ. Development)
 - b. Chambers of Commerce
 - c. Census Bureau
 - d. Utility Companies
 - e. Regional planning offices (Met Council etc.)
 - f. Local/County Assessors' records

2. Market Data
 - a. Local/County Assessors' records
 - b. Multiple Listing Services
 - c. County recorder's office
 - d. Verification with buyers and sellers
 - e. Certificates of Real Estate Value

3. Cost Data
 - a. Marshall Valuation Service (most commonly used, statewide)
 - b. Local contractors and suppliers

III. SELECTING A SUBJECT PROPERTY

- A. Select the neighborhood first!
 - 1. Neighborhood characteristics
 - a. Easily definable boundaries
 - b. All properties will be affected by the four forces similarly
 - c. Data relating to the four forces will be readily available
 - d. Properties will exhibit a reasonable level of conformity
 - e. Avoid neighborhoods where custom built homes are prevalent
 - f. Neighborhood life stage will show equilibrium, not decline
 - g. Properties will have sufficient dissimilarities so that adjustments are able to be demonstrated
 - h. Properties should be of sufficient vintage so that functional obsolescence is able to be demonstrated AND/OR economic or locational factors that indicate external obsolescence should be present
- B. Market Data Available
 - 1. Adequate number of improved property sales (within the last five years)
 - 2. Adequate number of vacant land sales in subject or comparable neighborhoods
 - 3. Rental properties which have recently sold or that allow for the development of market rent and gross rent multipliers
 - 4. Data should be checked to determine if differences exist that allow for reasonable adjustments to be extracted
- C. The subject **MUST**, at a minimum, exhibit the following forms of depreciation:
 - 1. Physical curable
 - 2. Physical incurable (short-lived and long-lived)
 - 3. Functional Curable OR Functional Incurable OR External (Economic)
 - 4. A REPORT WHOSE SUBJECT DOES NOT EXHIBIT AT LEAST 3 FORMS OF DEPRECIATION WILL NOT BE GRADED.
- C. Should be based on what type of comparables are available that provide the best supporting data to adequately demonstrate your knowledge of the appraisal process. Frequently it is the most common type of property in your jurisdiction.
- D. Choose a simple property in an area where there is adequate market activity. Avoid choosing a property outside of the city limits and without city services. Avoid a newly constructed home, or a unique property. **The candidate is strongly encouraged to contact a grader before writing the report to ensure that an acceptable subject property has been selected**
- E. Do not choose a subject and then "invent" obsolescence. The obsolescence should be obvious and have the ability to be measured with market data. This is one of the most common errors in writing a demonstration narrative. If you have any question of whether your selection of obsolescence is valid, consult with a member of narrative grading committee before proceeding. A single phone call or email may save many hours of needless work.
- F. Lack of inclusion or understanding of this concept is one of the most common errors in demonstration narrative writing.
- G. Finally; keep it simple. Don't create much unnecessary work attempting to process an obsolescence that requires much more work than is reasonable.

V. INSPECTION OF SUBJECT PROPERTY

- A. In order to accomplish an adequate inspection, the demonstration writer must be thoroughly familiar with the improvement analysis, cost analysis and depreciation sections of a demonstration narrative before the inspection.
 1. Make a checklist of all physical items that require attention in the appraisal. This should include neighborhood and site data as well as improvement data.
- B. List and measure all features of the improvements. Draw a sketch of the room layout. Building plans obtained from the owner or possibly from the building inspector are helpful.
 1. Also a plot plan or lot survey, showing the location of the improvements on the site is extremely helpful.
 - a. Attempt to roughly verify the set-back dimensions of the improvements from the lot lines.
 - b. Take adequate photos to provide a good portrayal of the subject to the report reader
 - c. Be sure photos accurately portray the subject property as appraised. If photos are not taken close to the appraisal date, explain any features that have changed since the date of appraisal.

V. WRITING THE APPRAISAL

A. Introduction to the Appraisal Report

1. Items considered with the "Introduction to the Appraisal Report" are:
 - a. Title Page
 - b. Letter of Transmittal
 - c. Table of Contents
 - d. Summary of Salient Facts and Conclusions
 - e. Type of Appraisal and Report
-Review USPAP Standards Rule 2-2
 - f. Identification of Client
 - g. Intended Use and Intended User(s)
 - h. Identification of the Subject Property
 - i. Property Rights Appraised
 - j. Purpose of the Appraisal
 - k. Definition of Value and Date of Value Opinion
 - l. General Assumptions and Hypothetical Conditions
 - m. Scope of Work

B. Region or City Analysis

1. The mission of this section is to present a clear, concise and illuminating word picture of the subject city or region. It should present historical, current and projected details of the city, town or region that have a specific and direct bearing on the subject. This discussion should emphasize physical, political, social and economic factors. If there are some negative factors, such as closing of a major employer or poor regional economics, these factors should be clearly defined and related to their effect on the value and marketability of the subject.
2. This section should include a definite, specific and reasoned conclusion as to the probable future of the area as it affects the future of the subject property. The writer must avoid the inclusion of purely Chamber of Commerce type rhetoric. A common useless inclusion, seen in many narratives, is a lengthy history which has no meaningful current impact on the subject. The best suggestion, here, is to be sure each bit of data has some relevance to the subject property. Is it something a prospective buyer of the subject may need to know to make an informed decision? This section should be in writer's own words. Evidence to the contrary will result in low score.

C. Neighborhood Analysis

1. The first part of this section is a description of the boundaries that delineate the neighborhood, and reasons why they are considered boundaries. The neighborhood map, to be supplied in the addenda, should have the neighborhood boundaries CLEARLY indicated.

This section is quite similar to the City/Regional Analysis, except related to the confines of the neighborhood. The following should be addressed:

- a. Classification of neighborhood as residential, commercial, rural, industrial, etc. This statement should be accompanied with description of major types of property that comprise the neighborhood.
- b. In keeping with the economic principle of change, the life stage (inclining, stable or declining) should be stated and also how long it has been in this stage and how long it is likely to remain.
- c. The reputation of the neighborhood, in terms of the general community, should be stated and discussed.
- d. Various highlights of the neighborhood should be identified as they relate to the subject (for example) any schools or parks, shopping, transportation (buses and major roadways), churches, etc. Also any nuisances, internal or external to the neighborhood, should be thoroughly discussed.
- e. If any kind of economic obsolescence is identified in this section, it needs to be tied into the three approaches to value and be consistent with those sections.
- f. Provide detailed analysis of economics of neighborhood including property value ranges, rental and vacancy ranges, income data and employment opportunities.
- g. Describe subject's location within neighborhood.
- h. Comment on compatibility of subject with balance of neighborhood development (for example) are the other houses in neighborhood of the same general vintage? Are they of similar construction style and quality, and are they similarly maintained?

Neighborhood Analysis (cont.)

- i. Does the entire neighborhood display the same general level of pride of ownership, or are there pockets of decay or over-improvements?

Neighborhood analysis sets forth the background for conclusions relative to remaining economic and effective age of the subject. It also provides some of the foundation for the determination of Highest and Best Use.

Failure to fully discuss physical, social, economic and political trends may jeopardize the readers understanding of comments or processes appearing later in the appraisal, and result in a lower grade.

D. Site Description and Analysis

1. The word "Analysis" appears frequently throughout the report outline. It means the detailed study of the individual parts. Failure to adequately discuss all important details of the subject and its appraisal process will result in a lower grade in the various sections.

Site Description and Analysis should include adequate data and analysis of:

- a. The building site, including: outline shape (rectangular, irregular, wedge, etc.), dimensions, calculated area, topography, identification of surface soil and comment on expected subsoil conditions. Condition of subsoil may be identified either technically through use of a soils survey or by indications derived by evidence of elevation, vegetation, condition of building components bearing on the soil, etc. All statements should be qualified as to reliability.
 - b. List type and source (public or private) of all utilities and improvements serving subject site.
 - c. Identify zoning of subject site as well as comments on subject's conformity. Include copy of zoning ordinance in addenda.
 - d. Comment, so as to provide a clear picture, on the use, type and condition of properties immediately surrounding subject. Comment on their compatibility with subject.
 - e. Identify all influences, negative and positive, affecting the subject.
 - f. Thoroughly describe all restrictions and covenants which affect subject. This includes location and size of easements (street and utility, etc.), limitations to deeded ownership (min. house size, fences, etc.), and zoning variances (bldg. set-back, etc.) affecting the subject. A statement that none of these conditions exist, if appropriate, should be included.
2. A site plan, appearing either here or in the addenda, should be referenced here.
 3. The data and background, to establish the Highest and Best Use, as if vacant, should be developed here.
 4. Lack of adequate detail of all of the above elements may result in low or minimum grading.

E. Improvements Description

1. For maximum credit, the data provided in this section must be thoroughly detailed and concise, provide a clear picture of the subject improvements, and consider the following as a minimum:

- a. Actual year built. Include date original building permit was obtained, if possible, and dates of all subsequent permits. Give name of builder, if available, and comment as to whether the subject is one of several similar (tract) homes, or is custom designed and built.
- b. Describe the principle structure style (rambler, split level, etc.). State if there is a garage (attached or detached) and basement (full or partial). Give area of all structures. Outside dimensions may be included with simple rectangular bldgs.
- c. State quality of materials and workmanship.
- d. Give a brief description of the floor plan, traffic patterns, and comment on the plan's functionality. Any features of functional obsolescence should be thoroughly discussed at this point.
- e. Give a detailed description of all components of the structures, beginning with the foundation and working up, as if you were walking thru an on-site inspection, for example:
 - f. Foundation walls. Size, number of courses and material (8" conc. block or 8" poured, etc.). Comment on condition. If there are cracks, are they significant and indicative of settling? Are there water marks indicating water problems. If any of these conditions exist, they require detailed analysis and comment which may need to tie into treatment of physical deterioration later in the appraisal.
 - g. Basement, crawl space or slab floor. Condition. Cracks need to be described and source and severity commented upon. Floor drain? Sump pump?
 - h. Windows and/or ventilation provided. Describe lighting and other electrical service for this area.
 - i. If heating system is located in this area give type (forced air, gravity, etc.), fuel (natural gas, oil, etc.), size (BTU rating), age and condition. Also describe water heater size, fuel and AGE.
 - j. If electrical service is located in this area give type (fuse or circuit breaker), size (Amps) service.
 - k. If there is basement finishing, fully describe giving use, size, finish details and condition.
 - l. Describe floor framing, example (8" steel "I" beam with 4" dia. steel columns, supporting 2X10 wood joists, 16" o/c, w/ wood cross—bridging)
 - m. Give structural wall framing for example, (outside walls 2x6s, 16" o/c and inside walls 2x4s, 16" o/c).
 - n. Give siding material and style for example, (Masonite lap type or cedar board and batten w/brick veneer on front or painted stucco, etc.)
 - o. Give roofing material and AGE
 - p. Give interior wall material, such as (1/2" gypsum board or lath and plaster, etc.). Describe condition. Describe all window types (double-hung, by-pass, casement, etc.) and conditions
 - q. Describe each room, giving interior dimensions, finishes of floors, walls and ceiling. Describe condition of finishes. This must coincide with any physical depreciation mentioned later.

Improvements Description (cont.)

- r. Give a complete description of garage, giving foundation, floor, framing, siding, windows, service door, O.H. door, any interior finishing and comment on condition. Give a similar description for any other structures, such as porches and auxiliary buildings. Driveways, walkways and patios should be included. Again, any comments on conditions should relate to depreciation section.
2. A floor plan sketch, including dimensions, should appear in the addenda. Make it neat and professional.

3. EFFECTIVE AGE

This section also includes the estimation of effective age. Since this is the first step in estimating physical depreciation, it is an extremely important part of the report. You should review (PAV p. 270 — 275). Give a brief discussion, and show examples, of the various methods that may be used to estimate Economic Life, Remaining Economic Life and Effective Age. Then give a thorough discussion of the methods you used to estimate and support the various ages. Finally, state your estimate of Effective Age and Remaining Economic Life. These must, of course, relate directly to the estimate of Physical Depreciation Long-Lived, in your cost approach.

Minimum credit will be given if the Effective age issue does not include sufficient analysis and support.

F. Highest and Best Use

The determination of Highest and Best Use is the most important foundation of an appraisal. All prior data, developed to this point, should lead to the logical conclusion derived in this section. Separate

1. The first step is to define H&B Use. One of the recognized definitions should be stated and properly acknowledged.
2. Each point, of the four- point test for Highest and Best Use (physical, legal, financially feasible, maximally productive), should be defined.
3. Then, a discussion of the analysis and conclusion, for each point should be stated. The logical flow from physically possible to maximally productive should be illustrated and apparent in the final conclusion. The conclusion should be stated as of the appraisal date.

G. Cost Approach

The three primary points of the Cost Approach are the estimation of the Site Value, the development of the RCN and the application of Depreciation. One of the keys to a passing grade is the inclusion of adequate SUPPORT for all opinions and conclusions in all three approaches. Major point reductions will be applied where support is missing or insufficient.

1. The first step is the estimation of the subject Site Value.
 - a. A minimum of three site sales should be used, preferably more. The subject should have been selected from the fact that there were sufficient comparable sales properties from which to derive a well- supported conclusion of subject site value. Provide adequate descriptions of each comparable. Locational information and comparison is extremely important for site valuation. This is especially important if the subject suffers from economic obsolescence. Sale date, buyer, seller, terms, price, title, and sale verification are required items.
 - b. Develop units of comparison (square foot, front foot, site, etc.)

Cost Approach, Site Value (cont.)

- c. SUPPORT market conditions (time) adjustment with paired sales. A grid with the unadjusted prices, as well as one with the adjustments, must be included.
- d. The depreciated value of site improvements, such as landscaping, driveway, etc. should be added to final value, since these are difficult to depreciate if added to improvement cost.
- e. State final conclusion of site value as of appraisal date.

2. The next step is to the derivation of RCN (Reconstruction Cost New). This is preceded by the acknowledged definitions of Replacement and Reproduction Cost, and a statement and rationale for concept used. The various methods (Unit—in—place, quantity survey, trended, etc.) of cost . development should also be discussed and a statement and rationale for method used, included. It is highly recommended that Reproduction Cost be used in a demo. report. The cost data source and its qualification should be stated, such as: The costs were derived from the Marshall Swift Cost Publication of Los Angeles, Calif., which is a widely used and accepted cost source. These costs were verified with Pete Jones, a local contractor and the Acme Lumber Co.

The next step is the actual mathematical development of the subject's RCN.

- a. Group costs separately for long-lived and short-lived components. This aides in the separate depreciation required for each.
- b. Each line item (foundation, siding, wiring, plumbing fixtures, etc.) should include both hard (time and materials) and soft (profit and overhead) costs.
- c. Include site improvements such as driveways and walks, but exclude landscaping which should be included in the site value.
- d. Costs for private water and sewer systems should be included here.
- e. If costs are from a cost service, like Marshall, Boechks, etc, show your work, including the application of local and time factors.
- f. Actual cost bids, from contractors are a good support item, but not required.

4. Application of Depreciation and Obsolescence

- a. Give definitions of the various forms of depreciation and obsolescence, with acknowledgements as needed.

5. Physical Depreciation

- a. Describe all items of Physical Curable depreciation. This should be a repeat of descriptions in Improvements Description section.
- b. Derive amounts for Physical Curable depreciation.
- c. Set-up grid showing all items of Physical Incurable, Short-Lived components and their RCN. Show economic life, effective age and percent of depreciation. Final column should show depreciation of each item. Show total RCN of all short-lived items. Show total depreciated value of all short-lived items. Show a note where Physical Curable was deducted from the RCN of a short-lived item.
- d. Establish the depreciation for Physical Incurable, Long-Lived components. This should be developed directly from the establishment of Effective Age in the Improvements Description section. Show all work in statement form, for example:

Total RCN	\$80,000
Less: Physical Curable	\$500
Less: RCN Short-Lived components	\$30,000
Total RCN Long-Lived components	\$49,500
Econ. Life = 75 yrs., Eff. Age = 25 yrs., Depreciation = 25/75 or 33.33%	
\$49,500 x .3333 = Long-Lived Physical Incurable =	<u>\$16,498</u>

Cost Approach, Depreciation (cont.)

6. Functional Obsolescence

a. Describe all items of Functional Curable. This should tie-in to all comments made in the Improvements Description section. If subject does not suffer from Functional Curable, a hypothetical—numerical example **MUST BE GIVEN**. Be sure to include adequate market support for all assumptions. A statement, proving item is curable should be included, such as support from the market that cost to cure would be fully reclaimed at sale.

b. Describe all items of Functional Incurable. This, again, should be tied to statements made in the Improvements Description section. As with the Curable, provide proof that it is incurable by supported statement that cost to cure would **NOT** be reclaimed from sale. And, again, if subject does not have Functional Incurable an example **MUST BE GIVEN**. **REMEMBER**, subject **MUST** suffer either from one of these or External (Economic) Obsolescence.

7. Economic Obsolescence

a. Describe how subject suffers from External Obsolescence. These statements should tie into any remarks made in the City, Neighborhood, Site Description, Highest and Best Use and Site Valuation sections. Market support should be referenced from the Sales Comparison and Income Approach sections. Provide support for the establishment of the land to building ratio, and be sure to allocate only to portion to building, for this deduction. Again, **REMEMBER** to provide a hypothetical numerical example if subject does not suffer from it.

8. Final Conclusion of Value via the Cost Approach

Similar in format to the following:

Total RCN		\$280,000
Less: Physical Depreciation		
Physical Curable	\$900	
Physical Incurable, Short-Lived	\$30,000	
Physical Incurable, Long-Lived	\$32,500	
Total Physical Depreciation		(\$63,400)
Less: Functional Obsolescence		
Curable	\$3,000	
Incurable	\$0	
Total Functional Obsolescence		(\$3,000)
Less: External Obsolescence	\$0	
Total Accrued Depreciation	\$66,400	
Plus: Depreciated Value of Improvements		\$213,600
Plus: Depreciated Value of Site Improvements		\$2,200
Plus: Site Value		\$62,000
Total Estimated Value by the Cost Approach		<u>\$277,800</u>

H. Sales Comparison Approach

Again, the key to a satisfactory score is the inclusion of adequate support for all assumptions. The primary process, in the Sales Comparison Approach, is the gathering, description and analysis of sales of properties comparable to the subject. For a Demonstration Report, a minimum of 4 comparable sales are desirable, five or six is better. More than six are usually not necessary.

1. Since the adjustment of your comparable sales is the main feature of this approach, and THIS IS THE SALES COMPARISON APPROACH, serious point deductions will result from failure to make market derived adjustments.
2. Provide sufficient description of the comparable sales so all items of comparison are fully covered.
3. Pay attention to many of the same concerns listed for the Site Valuation process.
4. Develop grids showing the unadjusted and adjusted sales comparables, including the subject for easy comparison. Develop two to three units of comparison (square foot, per bedroom, per room, etc.). By developing value indications, by each unit of comparison, the final value selection becomes better supported
5. Be sure to recognize and treat the same items of functional and/or external obsolescence, as well as major forms of physical deterioration, as demonstrated in the Cost Approach.
6. The final value conclusion should be stated as of the appraisal date.

I. Income Approach

The requirements are the same in this approach; support your assumptions.

1. Step one is the establishment of market rent for the subject. A minimum of 3 and preferably 4 or 5 rent comparables are recommended. These should be properties that are rented as of the date of appraisal. Be sure to select rental comparables that will support all forms of obsolescence and major deterioration, addressed in the Cost and Market Approaches. Since rentals are sometimes difficult to find, you may need to go to other, similar neighborhoods, even in different communities, to find adequate data. When this is done, state assurances that the data comes from areas similar to the subject. Support all adjustments made to rental comparables, preferably from the market. Again, the selection of market rent should not be an averaging or weighting process. Choose the adjusted rent requiring the least adjustment.
2. Step two is the derivation of a gross rent multiplier. Where rental data is in short supply, you may also use the rental sales for derivation of the market rent. A word of caution is appropriate; if the rental sale is used for market rent, the rent rate should be adjusted for time, if necessary. If it is not necessary, make a statement to the effect that "rent levels have remained unchanged since the sale". Remember, you do NOT adjust rental sales comparables for the derivation of GRM. Since the sales used to develop a GRM are not required to be closely similar to the subject, selection of the appropriate GRM may be done by an averaging process without support. However, if an uneven weighting process is used, support should be included for allocation of weight.
State the value determined by the Income Approach as of the appraisal date.
Minimum points will be awarded if rent adjustments are not market derived.

J. Reconciliation and Final Estimate of Value

This section is the "pulling together" of all of the appraisal processes and conclusions, into a final value estimate.

1. List the value conclusions from each approach.
2. Review the processes employed in the Cost Approach.
 - a. State the number of comparable sales used in the site value estimation, and comment on their quality as related to the subject. Comment on the reliability of the site value conclusion, based on the data available.
 - b. Comment on the data used to develop the RCN. Was it reliable?
 - c. Comment on the reliability of the estimation of various forms of obsolescence and deterioration.
 - d. State if and how you relied upon portions of the other two approaches when processing this one, such as using the rent and GRM, from the Income Approach, or an abstracted component value from the Sales Comparison Approach, when estimating functional incurable or economic obsolescence
 - e. Discuss the advantages and disadvantages of the Cost Approach, in the overall appraisal process, and the reliability of this approach in this appraisal.

Review the processes used in the Sales Comparison Approach.

- a. Comment on the quality and comparability of the comparables used. State if the number of comparables used was sufficient to provide a reliable estimation of value.
- b. State if there was sufficient data to recognize the forms of obsolescence and major deterioration found in the Cost Approach.
- c. Discuss the advantages and disadvantages of Sales Comparison Approach, in the overall appraisal process, and the reliability of this approach in this appraisal.

4. Review the processes used in the Income Approach

- a. Comment on the quality and comparability of the rental comparables used. State if the number of comparables used was sufficient to provide a reliable estimation of market rent. Also state if any or all of the rent comparables came from the rental sales used for derivation of the GRM.
- b. State if the rental sales, used to develop the GRM, were sufficient in number and indicative of the subject's market area.
- c. Discuss the advantages and disadvantages of Income Approach, in the overall appraisal process, and the reliability of this approach in this appraisal.

5. Give a final review.

- a. State whether the data was such that all three approaches were equally supportive of a final conclusion, or did one or two approaches provide higher reliability than the others?
- b. State which approach provides the most confidence upon which a final conclusion of value is based.
- c. State the final value conclusion both in numerals and capitals letters, and as of the appraisal date.

Lack of sufficient analysis of the processes of each approach will cause loss of grading points.

K. Certification

Include a standard form of certification. Be sure to date and sign it.
- See USPAP Standards Rule 2-3 for required content

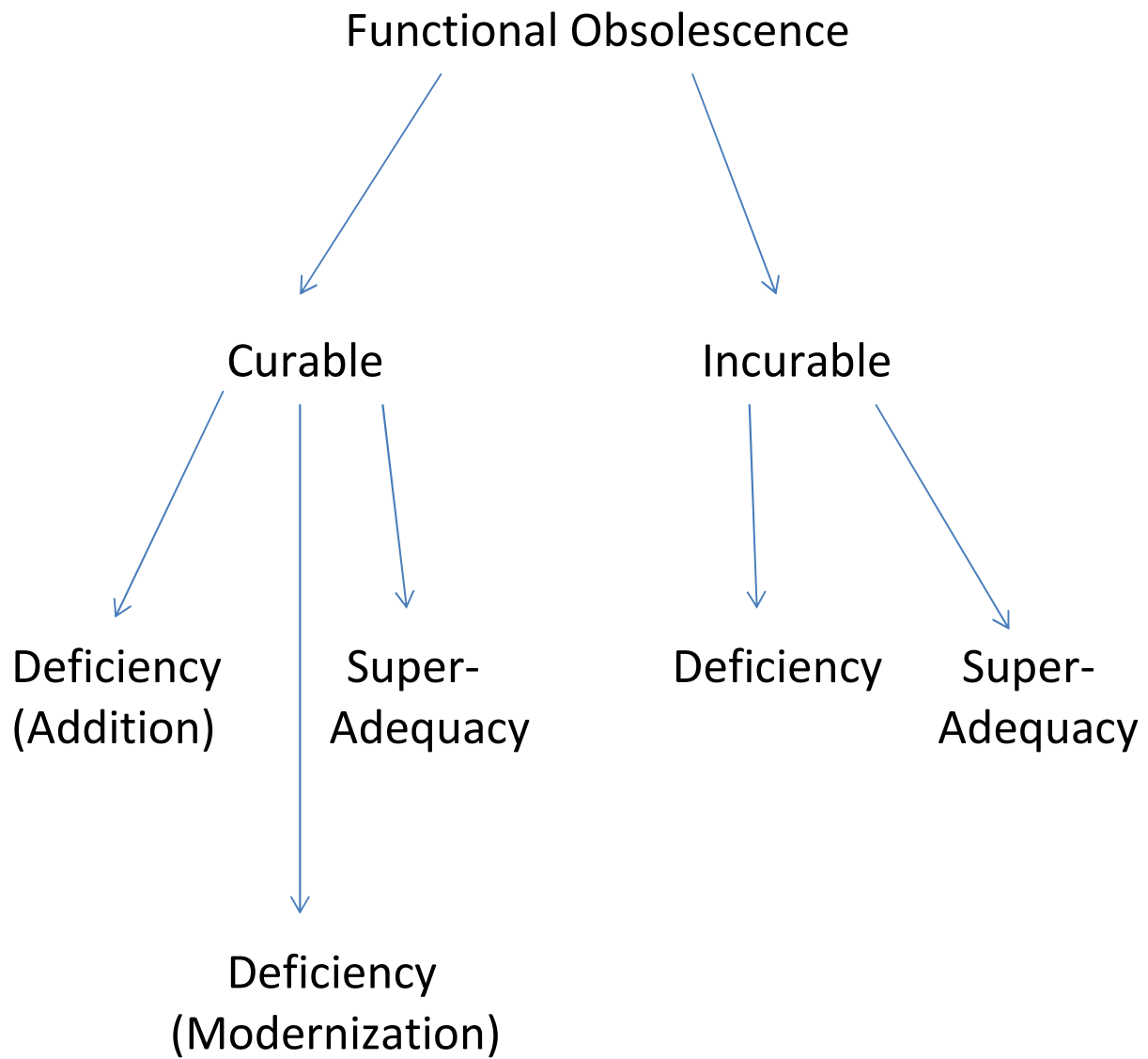
L. Qualifications of Appraiser

- a. Give name and address of appraiser
- b. Give education history in outline form, with emphasis on appraisal related courses.
- c. Give work history that is germane to appraisal, beginning with current or most recent position.
- d. Give all appraisal designations, certifications and licenses held by appraiser.
- e. Give all professional organization memberships and positions held, if any.
- f. Give very brief outline of professional activities such as committee memberships, instructional, etc., which provides the reader of the appraisal with a background picture of the appraiser.

M. Addenda

All addenda items should be referenced from the appropriate sections of the report.

- a. Basic pictures of subject and comparables should appear in the appropriate areas of the body of the report. Extra pictures may be included in the addenda.
- b. All need to be of good quality so that reader is able to derive a CLEAR picture of the subject.
- c. Neighborhood and comp: location map should be neat and professional in appearance.
- d. Plot or site plan and sketch of improvements should be neat and of professional quality.

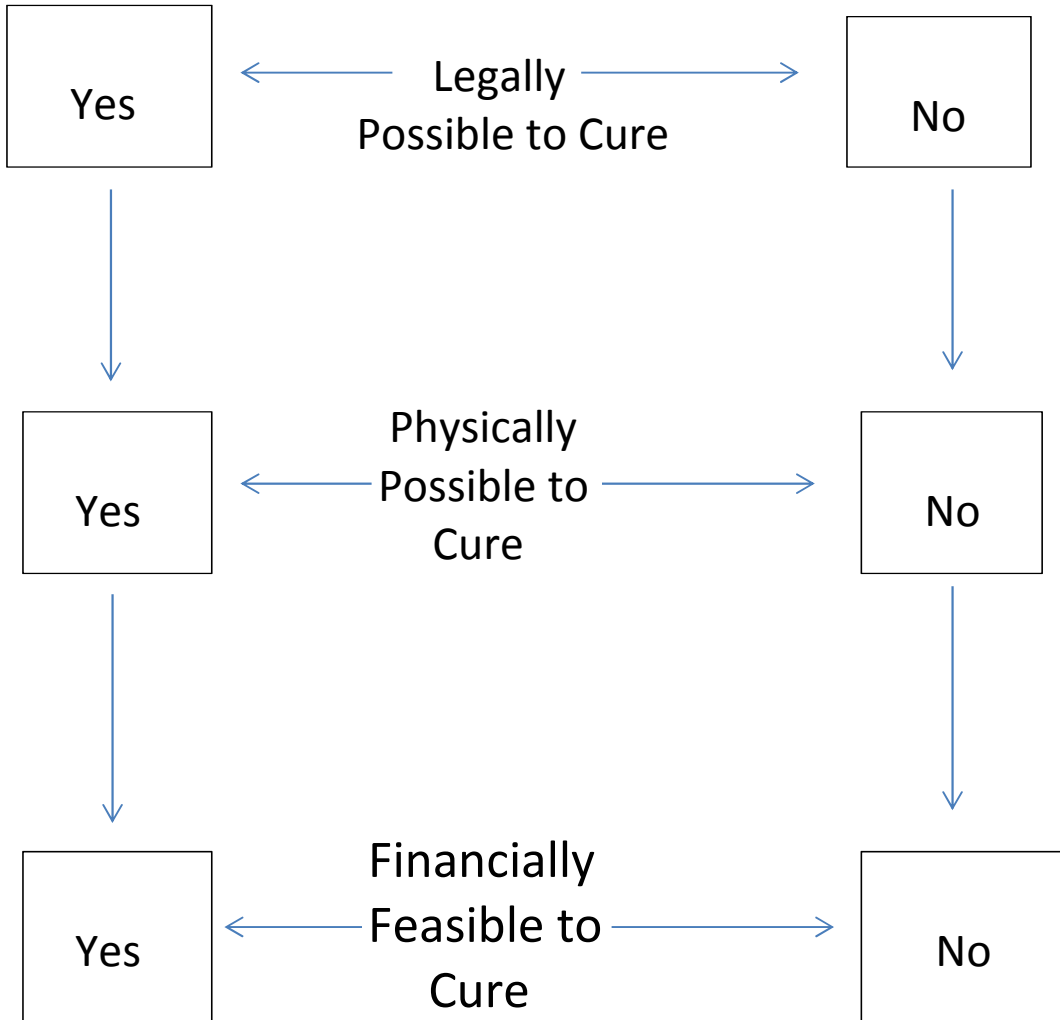


Functional Obsolescence

- Derived from the Market
 - Sales Comparison Approach
 - Income Approach
- Supported in body of report
 - Neighborhood Analysis Section
 - Improvement Description Section
- Tested for curability vs. incurability
- Form of obsolescence and methodology matched
- Entire cost of item not depreciated unless included in RCN:
ONLY THE PENALTY

CURABLE

INCURABLE



CURABILITY vs. INCURABILITY

Cost to Cure	\$3,000
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Sale Price of Dwelling without Obsolescence	\$192,000
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Sale Price of Dwelling with Obsolescence	<u>(184,000)</u>
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Contributory Value Loss	\$ 7,800
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Estimated Rent without Obsolescence	\$1,800
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Estimated Rent with Obsolescence	<u>(1,725)</u>
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Difference	\$ 75
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Indicated GRM	<u>X 100</u>
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Contributory Value Loss	\$7,500
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CURABLE FUNCTIONAL OBSOLESCENCE

Deficiency Requiring Addition (Normal)

Cost to Add Component	\$2,500
Cost to Include Component (if included when structure was built)	<u>(1,500)</u>
Curable Functional Obsolescence	\$1,000

Deficiency Requiring Modernization (Substitution)

Cost New of <u>Existing</u> Component	\$1,500
<u>Less</u> Physical Deterioration Already Charged	(900)
<u>Plus</u> Cost to Remove Old Component and Cost to Install New One	<u>600</u>
Curable Functional Obsolescence	\$1,200

Superadequacy

Reproduction Cost New of Component	\$3,000
<u>Less</u> Physical Deterioration Already Charged	(1,500)
<u>Plus</u> Cost of Removing Item and Refinishing	500
<u>Less</u> Salvage Value of the Item	<u>0</u>
Curable Functional Obsolescence	\$2,000

INCURABLE FUNCTIONAL OBSOLESCENCE

Deficiency

Estimated Rent Loss Due to Deficiency	\$75
Indicated Gross Rent Multiplier	X 100
Total Value Loss	\$7,500
<u>Less</u> Cost if Included in Cost New Estimate	<u>(5,000)</u>
Incurable Functional Obsolescence	\$2,500

Superadequacy

Current Reproduction Cost New of Superadequacy	\$7,500
<u>Less</u> Physical Deterioration Already Charged	(4,500)
<u>Plus</u> Value of Added Cost of Owning	0
<u>Less</u> Value Added	<u>0</u>
Incurable Functional Obsolescence	\$3,000

METHODS OF ESTIMATING DEPRECIATION

Direct (Subject Property)

Economic Age Life
Modified Economic Age Life
Engineering Breakdown
Observed Condition (Breakdown)

Indirect (External)

Sales Comparison
Income Capitalization

UNITS OF COMPARISON ANALYSIS

- “Possible units of comparison are price per square foot, price per front foot, price per site”
- Use grid
- Analyze—don’t just list
 - Analysis required even if choice of unit of comparison is obvious
 - Do not rely on third party opinions
 - Analyze ranges
 - Be sure to test adjustments
 - Logical choice

Units of Comparison

Sale #	Sale Price	Square Feet	Front Foot	Price per Sq. Ft.	Price per Front Ft.
1	\$84,000	10,000	100'	\$8.40	\$840
2	\$97,000	11,500	115'	\$8.43	\$843
3	\$98,200	10,250	100'	\$9.58	\$982
4	\$85,400	9,000	90'	\$9.49	\$949

From the above analysis, it can be determined that size is an important influence in the value of these properties. However, the most stable relationship appears to be the sale price per square foot. It would therefore seem logical that the appraiser would select sale price per square foot as the proper unit of comparison, make any necessary adjustments to the sale price per square foot of the comparable properties, correlate the adjusted sale price per square to that indicated for the subject property, apply that selected sale price per square foot to the subject's square foot area to develop an indicated value for the subject property. Note that by using the sale price per square foot as the proper unit of analysis, the need for a size adjustment may be eliminated.

Units of Comparison

	Sale #1	Sale #2	Sale #3	Sale #4	Subject
Sale Price	\$178,000	\$181,000	\$173,500	\$185,000	N/A
Size	1,500	1,560	1,400	1,640	1,500
# Rooms	6	6	6	7	6
Price / Sq. Ft.	\$118.67	\$129.29	\$123.93	\$112.80	N/A
Price / Room	\$29,667	\$30,167	\$28,917	\$26,429	N/A

Size is an important factor affecting value, and the above analysis indicates the most stable unit of comparison is sale price per square foot. The sale price per square foot will be used as the appropriate unit of comparison. Any necessary adjustments to the sale price per square foot of the comparable sales will be made and the selected sale price per square foot will be multiplied by the subject's square footage to derive an indicated value for the subject property.

Comparable Rental Analysis

	Rental #1	Rental #2	Rental #3	Subject
Monthly Rent	\$1,300	\$1,250	\$1,300	N/A
Size in Sq. Ft.	1,500	1,420	1,400	1,500
# Rooms	6	6	6	6
Rent / Sq. Ft	\$0.87	\$0.88	\$0.93	N/A
Rent / Room	\$216.67	\$208.33	\$216.67	N/A

After examining all units of comparison, monthly rent per square foot appears to be the most consistent. The monthly rent per square foot will be analyzed and adjusted to derive an estimate of the appropriate monthly rent for the subject property.

Market Adjustment Analysis

- Paired adjustments should be used
- Cost-derived adjustments are not acceptable
- Adjustments should be logical and reasonable. If an adjustment appears illogical, try another paired set
- Even if it is evident that adjustments are not warranted, testing must be performed
- When developing market conditions (time) adjustments for site, sales of two identical properties which sold at different times may be used
- Sample illustrations of paired adjustments:

Sales Comparable #1 (with feature)	\$179,800
Sales Comparable #4 (without feature)	<u>(176,000)</u>
Contributory Value of Feature	\$ 3,800

Rental Comparable #1 (with feature)	\$1,200
Rental Comparable #3 (without feature)	<u>(1,165)</u>
Contributory Rental Value	\$ 35

Hybrid Adjustments

- Ok to use in cases where good rental data are not available

- Example:

Contributory value of feature
(Sales Comparison Approach) \$1,500

Indicated GRM
(Income Approach) ÷ 100

Contributory Rental Value of Feature \$15

PHYSICAL DEPRECIATION (DETERIORATION)

Curable

- RCN of items does not necessarily equal Cost to Cure
- Must be supported in Improvement Description

Incurable (Short-Lived)

- All components whose lives are shorter than that of the basic structure must be accounted for
- RCN of components must be similar to that contained in the cost new estimate (including multipliers)
- Must be discussed in the Improvement Description

Incurable (Long-Lived)

- RCN's (not cost to cure or short-lived depreciation) of depreciated items (curable and incurable short-lived) are deducted from total RCN to arrive at RCN of long-lived items
- Depreciation percentage must be derived from market

Economic Life Analysis

- Don't rely on cost manuals to derive total economic life
- Use methodology from the "Guide"
- Use comparables from Sales Comparison Approach
- Site value conclusions must be reasonable and logical
- Be certain that conclusions of lives are logical and reasonable
 - Large discrepancies between effective ages and chronological ages must be addressed
 - Total economic lives appearing to be abnormal need to be discussed