

Table of Contents

Overview ix

Course Schedulexiii

SECTION 1

Part 1. Introduction to the Cost Approach

Preview Part 1 1
Cost Approach Pretest 3
Usefulness of the Cost Approach in the Valuation of Residential Properties 9
Cost Approach Limitations and Drawbacks 9
Cost Approach Applications 10
1.1 Problem 12
Steps in the Cost Approach 13
1.2 Problem 14
Building Cost Estimates 15
1.4 Discussion Question 20
Building Inspection 20
Building Area Measurement 21
1.5 Problem 22
Digging Deeper 24
Review Part 1 25
Review Quiz 27

Part 2. Cost Estimating Methods

Preview Part 2 29
Cost Data Sources 31
Cost Estimating Methods 32
2.3 Problem 40
Digging Deeper 42
Review Part 2 43
Review Quiz 45

Part 3. Depreciation Concepts

Preview Part 3.....	47
Introduction to Concepts and Terms.....	49
Causes of Depreciation.....	52
3.1 Problem.....	58
Economic Age-Life Method of Estimating Total Building Depreciation	60
Modified Economic Age-Life Method	64
3.7 Problem.....	68
Market Extraction Method for Measuring Total Depreciation	69
3.9 Problem.....	72
Review Part 3.....	73
Practice Test—Section 1.....	75

SECTION 2

Part 4. Breakdown Method

Preview Part 4.....	74
Breakdown Method Applications	79
Functional Obsolescence Considerations	86
Measuring Functional Obsolescence	90
External Obsolescence	96
Digging Deeper.....	98
Review Part 4.....	103
Review Quiz	105

Part 5. Practice Problems in Estimating Depreciation

Preview Part 5.....	109
Introduction to Problems	111
5.1 Problem.....	112
5.2 Problem.....	113
5.3 Problem.....	113
5.4 Problem.....	114
5.5 Problem.....	115
5.6 Problem.....	116
5.7 Problem.....	117
5.8 Problem.....	118
5.9 Problem.....	119
5.10 Problem.....	120
5.11 Problem.....	121
5.12 Problem.....	121

5.13 Problem.....	122
5.14 Problem.....	122
5.15 Problem.....	123
5.16 Problem.....	124
5.17 Problem.....	124
5.18 Problem.....	125
Review Part 5.....	127

Part 6. Introduction to Campus City Case Study. Cost and Depreciation

Preview Part 6.....	129
Introduction	131
Case Study Exercises on Cost and Depreciation	133
Case Study Exercise 1. Cost Estimate Calculations.....	134
Case Study Exercise 2. Market Extraction Worksheets	136
Case Study Exercise 3. Estimate Depreciation for the Subject Property	139
Review Part 6.....	141
Practice Test—Section 2.....	143

SECTION 3

Part 7. Overview of Site Valuation and Campus City Case Study. Market Area, Site and Improvements, and Highest and Best Use

Preview Part 7	147
Site Valuation	149
Principles Affecting Site Valuation.....	151
Identification of Site Characteristics.....	154
Competitive Market Analysis	157
Site Valuation—Highest and Best Use	159
Campus City Case Study. Market Area, Site and Improvements, and Highest and Best Use	163
Case Study Exercise 4. Identifying Significant Information from the Analysis of a Subject Property’s Market Area.....	166
Review Part 7.....	167
Review Quiz	169

Part 8. Site Valuation Procedures

Preview Part 8.....	171
Methods of Site Valuation	173
Valuing a Site Using Sales Comparison Analysis	174
8.1 Problem.....	177
8.2 Problem.....	181
Units of Comparison.....	184
8.4 Problem.....	186
Review Part 8.....	187
Review Quiz	189

Part 9. Site Valuation Procedures, Continued

Preview Part 9.....	191
Procedures and Adjustments.....	193
9.1 Dilemma.....	194
The Steps of the Sales Comparison Approach	196
Quantitative Adjustments	197
9.2 Problem.....	198
9.3 Problem.....	199
9.4 Problem.....	203
Qualitative Analysis	205
9.5 Dilemma.....	206
9.6 Dilemma.....	208
9.7 Dilemma.....	209
Reconciliation	210
Review Part 9.....	213
Review Quiz	215
Practice Test—Section 3.....	217

SECTION 4

Part 10. Campus City Case Study. Site Valuation Section

Preview Part 10.....	221
Introduction	223
Case Study Exercises, cont.	225
Case Study Exercise 5. Site Sales Adjustment Grid.....	226
Case Study Exercise 6. Site Sale Follow-Up Questions	229
Case Study Exercise 7. Cost Approach. AI Residential Summary Appraisal Report.....	230
Review Part 10.....	233

Part 11. Extraction and Allocation Methods of Site Valuation

Preview Part 11.....	235
Extraction Method	237
11.1 Problem.....	239
Allocation Method	240
11.3 Problem.....	242
Summary of Methods of Site Valuation	244
Digging Deeper.....	245
Review Part 11.....	247
Practice Test—Site Valuation.....	249

Part 12. Cost Approach Review and Reconciliation and Exam Review

Preview Part 12.....	253
Cost Approach Review	253
Cost Approach Reconciliation	253
Preparing for the Exam.....	254
Conclusion.....	258
Cost Approach Posttest	259
Review Part 12.....	265

APPENDIX

Residential Green and Energy Efficient Addendum.....	267
--	-----

SOLUTIONS

Overview

Course Description

Residential Site Valuation and Cost Approach is a practical, hands-on course designed and presented in a manner that addresses the actual employment and application of appraisal techniques learned in previous courses. This course concerns two basic aspects of residential real estate appraisal: land/site valuation and the development of the cost approach. Special attention is given to the appraisal of residential building sites and the various means of measuring accrued depreciation. Another major course component is class work that develops skills in developing a current cost estimate using market extraction, interview techniques, and information provided by professional cost data sources.

An in-depth case study is presented in three segments. It features the valuation of a two-unit residential rental property and demonstrates the fundamentals of site valuation, estimation of current improvement cost, and various methods of recognizing and measuring accrued depreciation.

This course provides 14 (15 with exam) hours of education and is divided into four sections. Section 1 consists of a detailed study of the development of a complete cost approach. The step-by-step process of estimating current construction cost is the focal point. Data sources and the comparative-unit method of cost calculation are explored in detail, and the specifics of the age-life and market extraction methods of estimating depreciation are discussed.

Section 2 focuses on applications of the breakdown method for estimating depreciation techniques, including physical deterioration, functional obsolescence, and external obsolescence. This section concludes with a discussion on cost approach summation, which includes a reconciliation of depreciation estimates.

Sections 3 and 4 focus on topics concerning site valuation. These sections cover residential site valuation principles, the concept of market analysis, and the development of a highest and best use conclusion. Section 3 contains a detailed study of the elements of comparison and the units of comparison as they are applied in the sales comparison approach for estimating site value. Section 4 presents the extraction and allocation methods of site valuation and concludes with a discussion of reconciliation of the value indications to a final opinion of site value.

This course is designed for individuals with introductory experience and an understanding of the fundamental concepts of appraising who wish to become a licensed and/or certified appraiser. It translates theory into practice through extensive and varied classroom activities. By applying concepts to real-world situations, participants can discover new ways to use their knowledge and analytical skills.

Learning Enhancements

The course has been designed with a variety of elements to enhance your learning experience.

- **Preview.** To give you a taste of what is to come, you will find a *Preview* page that begins each Part. Included on the *Preview* page is a brief overview of the content, learning objectives to consider as you move through the content, and learning tips that will assist you in understanding the information you're about to learn.
- **Learning Objectives.** Each learning objective covers essential information you need to know to fully understand the concepts in the course. Look them over before the Part begins so that you have a frame of reference as you move through the material. At the end of each Part, reread the objectives. Are you able to do what is stated? If not, this is the time to ask your instructor for help. Or, review the concepts that you do not understand.
- **Case Study.** The case study contains real-world exercises that provide practice in applying the methodologies presented in the course.
- **Examples & Problems.** Supplementing the discussions, we've included examples and problems to help you visualize and practice what you are learning.
- **Fill-in-the-Blanks.** It is a proven fact that when you write something down, you are more apt to remember it. The Course Handbook has "missing" content in the outline that you will need to add in the space provided in your handbook as the instructor goes over the content.
- **Review.** Each Part concludes with a review. Included in the review are the learning objectives and key terms and concepts that have been covered. Also, we've provided recommended readings from textbooks that will reinforce what you have learned in class.
- **Review Quizzes and Section Practice Tests.** Short quizzes are included at the end of most Parts, and Section Tests are included at the end of each Section in the "Review." The questions are similar to the types of questions you might find on the exam. By answering the true/false questions, fill-in-the-blanks, or multiple-choice questions, etc., you will know whether or not you really know the information that was covered in that Part. Answers to the Review Quizzes and Practice Tests are found in the Solutions section at the end of the handbook.
- **Digging Deeper.** **Digging Deeper information goes beyond the scope of the course and is not intended to be covered in class. It is not tested on the course exam; however, appraisers preparing for the comprehensive exam should be familiar with it, as well as all other material contained in the Course Handbook, whether or not it is presented in class.**

Classroom Guidelines

To make the classroom environment a positive experience for everyone attending, please follow these guidelines:

- 100% attendance is required. No exceptions.
- Limit use of laptops and wireless devices to classroom projects.
- Communicate with business associates during break time instead of class time.
- Put away reading materials such as newspapers and books that are not used in class.
- Silence cell phones.
- Use recording devices only if prior permission has been granted.
- Refrain from ongoing conversations with those seated near you and other distracting behavior.

General Information

- **Calculators.** A financial calculator is required. The accepted model used in the course is the HP-12C. Other calculators can be used if participants know how to operate them. No class time will be used to cover the operation of other calculators.

Important Note. Laptops, cellular phones, tablets, iPads, wearable technology (smart watch, Apple Watch, Google Glass, etc.) and other devices that can store data or connect to the Internet are **NOT** permitted during the exam. In addition, all watches, wallets, bags, and purses must be removed and stored out of reach prior to taking the exam.

- **Breaks.** There will be two 10-minute breaks during the morning session and two 10-minute breaks during the afternoon session unless noted otherwise by the course sponsor. The lunch break is one hour.
- **Attendance sheets** will be distributed during class to verify your attendance during the morning and afternoon sessions.
- **Certificates of completion** may be downloaded after completion of the course, and attendance during the entire course is required.

Recommended Texts

- *The Appraisal of Real Estate*, 15th ed.
- *The Dictionary of Real Estate Appraisal*, 6th ed.

Exam

- 30 multiple-choice questions