**Unit 19 Outline**

**Real Estate Appraisal**

**Outline**

I. Appraising—An appraisal is an estimate or opinion of value based on supportable evidence and approved methods. Appraising is a professional service performed for a fee.

A. Regulation of Appraisal Activities—Title XI of FIRREA requires that any appraisal used in connection with a federally related transaction must be performed by a competent individual licensed or certified according to state law.

1. A federally related transaction is any real estate-related financial transaction in which a federal financial institution or regulatory agency is involved.

B. Illinois Appraiser Categories

1. Associate Real Estate Trainee Appraiser
2. Certified Residential Real Estate Appraiser
3. Certified General Real Estate Appraiser

IN ILLINOIS . . . *The Illinois Real Estate Appraiser Licensing Act of 2002* as amended 2009, *provides for the* mandatory *licensure,* with limited exceptions*, of Illinois appraisers. The law recognizes three categories of appraisers:*

* *Associate real estate* trainee *appraiser: entry level appraiser; all reports must be co-signed by a state certified residential real estate appraiser or state certified general real estate appraiser.*
* *Certified residential real estate appraiser: qualified to appraise residential property of one unit to four units without regard to transaction value or complexity, but with restrictions in accordance with Title XI,* USPAP*, and criteria established by AQB.*
* *Certified general appraiser: qualified to appraise all types of property without restrictions as to the scope of practice.*
* *Only individuals may be licensed or certified as appraisers. No corporation, partnership, firm, or group may be certified or licensed as an appraiser. A certified or licensed appraiser may, however, sign appraisal reports on behalf of a business entity. Appraisal certification and licensing candidates must meet educational, qualification, examination and experience requirements as well as comply with a fee structure and disciplinary rules.*

C. Comparative market Analysis

1. different from an appraisal report

2. features properties similar to the subject property in size, location, and amenities

3. Statutory language.

D. Broker’s Price Opinion (BPO)

1. A broker’s price opinion (BPO) is a less expensive alternative of valuating properties.

II. Value

A. To have value in the real estate market, a property must have the following characteristics:

1. Demand: the need or desire for possession ownership, plus financial capacity

2. Utility: usefulness for its intended purposes

3. Scarcity: a finite supply

4. Transferability: relative ease with which ownership rights are transferred from one person to another

B. Market Value—The most probable price that a property should bring in a fair sale:

1. Arm’s length transaction

C. Market Price

D. Cost

E. Basic Principles of Value

1. Anticipation

a. Value is created by the expectation that certain events will occur.

b. Anticipation is the foundation on which the income approach to value is based.

2. Change—No physical or economic condition remains constant.

3. Competition—The interaction of supply and demand is called competition.

4. Conformity—Value is created when a property is in harmony with its surroundings.

5. Contribution—The value of any part of a property is measured by its effect on the value of the whole.

6. Highest and best use—The most profitable single use to which a property may be put is called highest and best use. The use must be legal, economically or financially feasible, physically possible, and maximally productive.

7. Increasing and diminishing returns—As long as money spent on improvements produces an increase in income or value, the law of increasing returns applies; when additional improvements do not increase income or value, the law of diminishing returns applies.

8. Plottage—Principle of Plottage: merging or consolidating adjacent lots into a single larger one produces a greater total value than the sum of the two sites valued separately.

9. Regression and progression

a. Regression: the worth of a better quality property is adversely affected by the presence of a lesser quality property.

b. Progression: the value of a modest home would be higher if it were located among larger, fancier properties.

10. Substitution—The maximum value of a property tends to be set by how much it would cost to purchase an equally desirable and valuable property.

a. Substitution is the foundation of the sales comparison approach.

11. Supply and demand—The value of a property depends on the number and price of properties available in the marketplace, the number of prospective purchasers, and the price buyers will pay.

III. The Three Approaches to Value

A. The Sales Comparison Approach

1. Opinion of value is obtained by comparing the property being appraised (subject property) with recently sold comparable properties.

2. Adjust for differences

3. Only adjust comparable value

a. If the comparable is inferior, INCREASE its value.

b. If the comparable is superior, SUBTRACT from its value.

B. The Cost Approach

1. Reproduction cost

2. Replacement cost

3. Determining reproduction or replacement cost

a. Square-foot method

b. Unit-in-place method

c. Quantity-survey method

d. Index method

4. Depreciation

a. Physical deterioration

b. Functional obsolescence

c. External obsolescence

d. Straight-line method

C. The Income Approach

1. Capitalization rate

2. Gross rent or gross income multipliers

D. Reconciliation

1. Art of analyzing and effectively weighing the findings from the three approaches

IV. The Appraisal Process

A. The key to an accurate appraisal lies in the methodical collection and analysis of data

1. General Data

a. Nation, region, city, and neighborhood

2. Specific Data

a. Details of the subject property and comparables

B. Appraiser’s Report