Valuation of High-End Residential Properties

By

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Updated 2023

Section 1 – Introduction of Instructor & Workshop Topic

Section 1 – Introduction of Instructor

Kara Endicott

- From Lawrence, KS
- One husband, no kids, one cat
- Likes golf, running & movies

Section 1 – Introduction of Workshop

Purpose of this workshop is to provide some guidance and suggestions on the process of data analysis and valuation of high-end residential properties.

Information from various areas of the U.S. as case study examples to help establish some processes and procedures which may be helpful when you encounter these properties. Images and property characteristics of sales and listed properties will also be used.

Section 1 – Introduction of Workshop

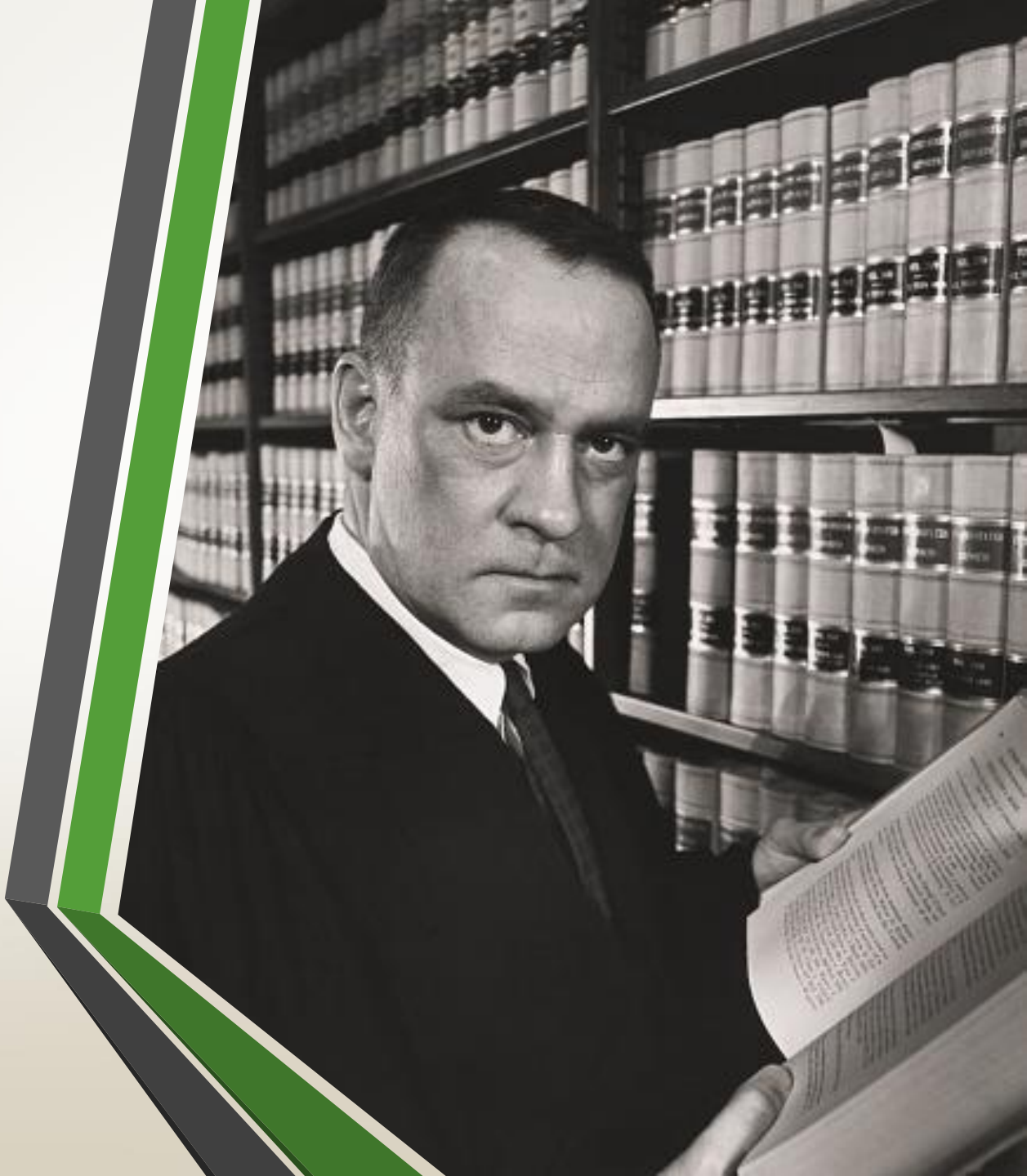
First question, what constitutes a high-end residential property?

The answer: It depends.
Disappointing response, I am sure.

Section 1 – Introduction of Workshop

This is a lot like the old U.S. Supreme Court hearing where a Justice Potter Stewart stated, “He did not know the definition of pornography, but knows it when he sees it”. That philosophy fits for the high-end or difficult residential property. As appraisers, we know it when we see it and unfortunately, ‘it’ tends to vary from jurisdiction to jurisdiction leaving us without hard and fast classification rules.

While the numbers may vary from place to place, the process we use to value these properties can be established.



Section 1 – Objectives

- Consider which valuation method works on high-end properties.
- Examine the important properties characteristics to collect
- Understand how valuing these properties fits into USPAP
- Through case studies, determine what might work for your jurisdiction
- Look around the United States at areas with high-end homes
- Interpret data collected on high-end properties
- Understand ‘one size’ does not applied to all high-end properties

Section 1 – Introduction of Workshop

Movie, TV Homes for Sale | PEOPLE.com

Section 2 – USPAP Review

Section #2 – USPAP Review

What is USPAP and what does the acronym stand for?

Why USPAP was developed.

Who Must Comply with USPAP?

Current Version is 2024 USPAP

Section #2 – USPAP Review : The Five Rules

ETHICS RULE

RECORD KEEPING RULE

COMPETENCY RULE

SCOPE OF WORK RULE

JURISDICTIONAL EXCEPTION RULE

Section #2 – USPAP Review : The Ten Standards

Standard 1 – Real Property Appraisal, Development

Standard 2 – Real Property Appraisal, Reporting

Standard 3 – Appraisal Review, Development

Standard 4 – Appraisal Review, Reporting

Standard 5 - Mass Appraisal, Development

Standard 6 – Mass Appraisal, Reporting

Section #2 – USPAP Review : The Ten Standards

Standard 7 – Personal Property Appraisal, Development

Standard 8 – Personal Property Appraisal, Reporting

Standard 9 – Business Appraisal, Development

Standard 10 – Business Appraisal, Reporting

Section #2 USPAP Review

Advisory Opinions

Advisory Opinion 32 (AO-32) & AO-32 Illustrations

Section #2 – USPAP Review: New in 2024

Additional Advisory Opinions

Frequently Asked Questions

Section #2 – USPAP Review: New in 2024

- Standard Rule 5
- What's New in the 2024 Version of USPAP

Standard 5 (Mass Appraisal, Development) Relevant Sections

A mass appraisal includes 7 items

Correctly employ recognized methods

Market influence, market area, and relevant characteristics

Credible assignment results

Quantity and quality of data

New in 2024 USPAP

ETHICS RULE Updated with New Non-Discrimination Section

Transfers and Sales

Retired and Modified Definitions

STANDARD 6: Mass Appraisal, Reporting

Common Themes in USPAP

- Public trust
- Competency
- Not performing an assignment with bias
- Avoiding gross negligence
- Having opinions that are supported by data, information, and analysis
- Documenting and communicating the work performed

Section #2 – USPAP Review: USPAP in Management

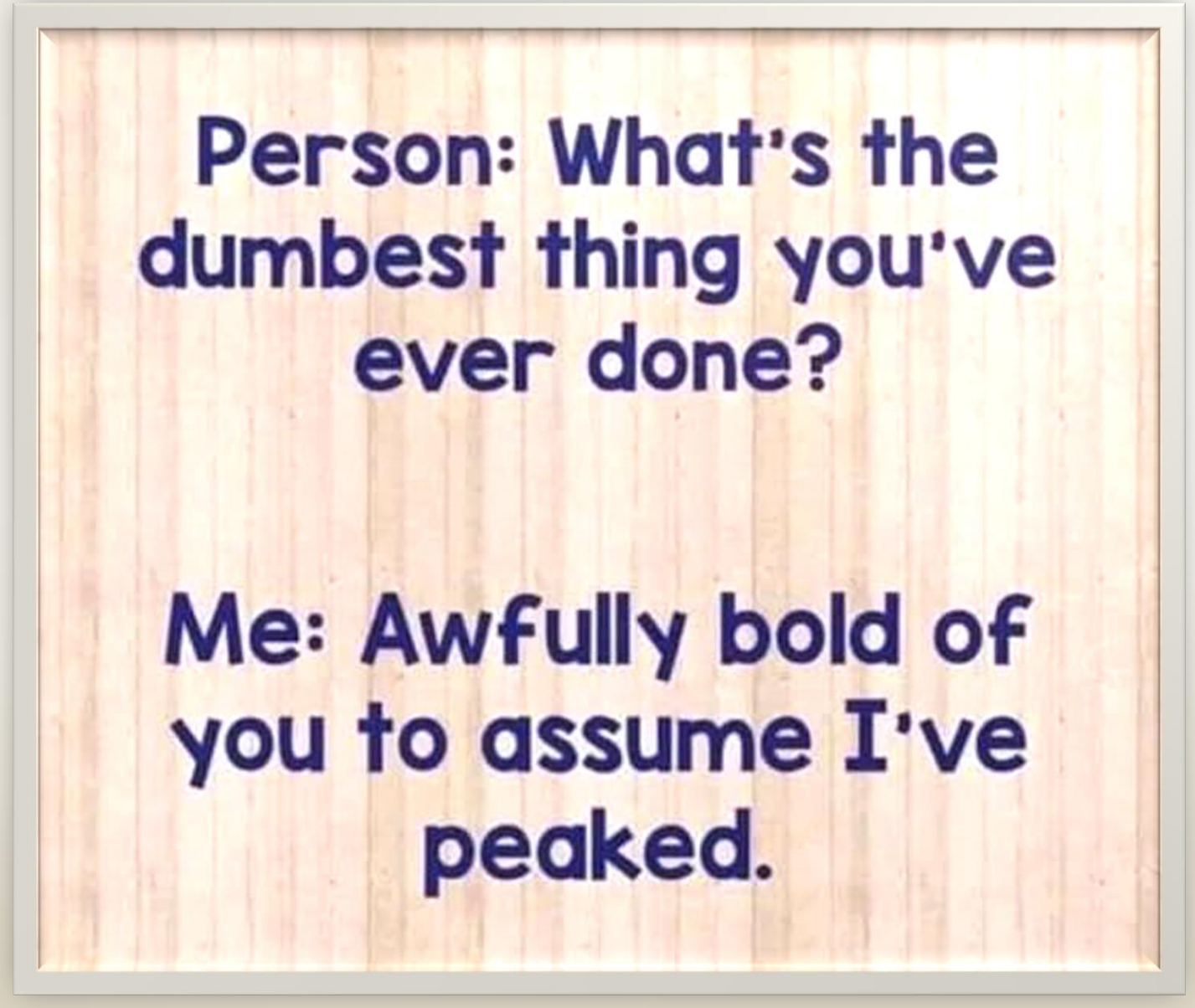
If you are a newer manager, remember you always have peers to rely on for guidance and help.

In other words,

WWAPD

What Would Appraiser Peers Do?


NOBODY'S PERFECT
I'M NOBODY, THEREFORE I'M PERFECT
makeameme.org


Person: What's the dumbest thing you've ever done?
Me: Awfully bold of you to assume I've peaked.

Section 3 – General Information

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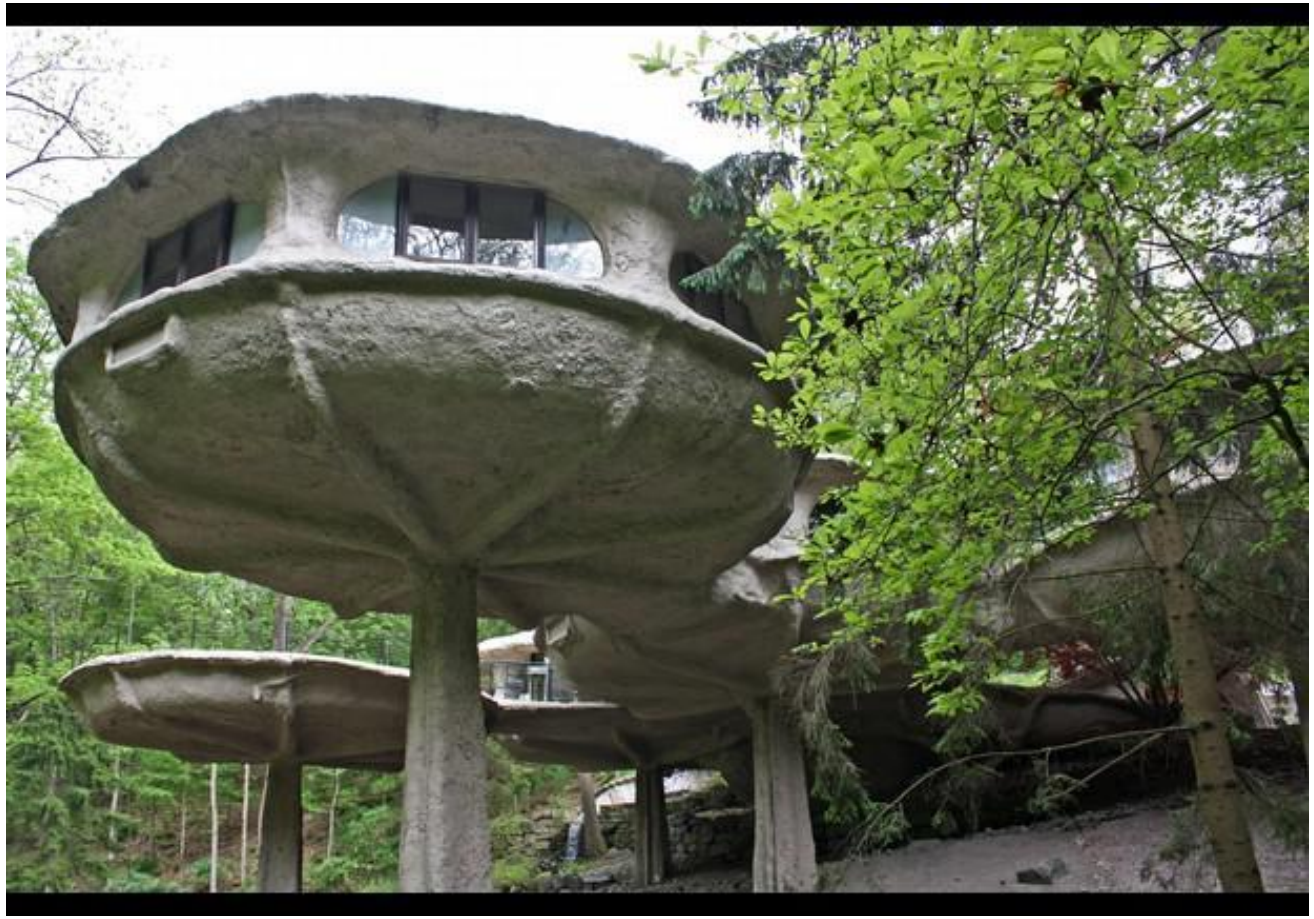

Section 3 – General Information

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Section 3 – General Information

To start the conversation on the definition of high-end homes let's use an article dated April 4, 2008, in USA Today. This article by Sheere Curry titled, "High-End Homes for Sale" looks at homes in three different cities in the United States.

One home was in Northville, Michigan with an asking price of $1.7 million, another in Scottsdale, Arizona, listed for $1.85 million and the last was in Los Angeles, California for $4.3 million.

Section 3 – General Information

It is not clear what the criteria was for the selection of these homes by the writer of the article. It could have been her opinion that anything over $1 million is high-end or that she believed each home represented a high-end home for that area. It does however point out that the definition or opinion of what is high-end is predicated on location.

Section 3 – General Information

- Size, condition, and complexity may all play a role in what constitutes a high-end property.
- For some appraisers and jurisdictions, it could be any one of those factors. What is high-end for one appraiser may be a typical home for another. No matter the definition, how to value these properties can create great difficulties for any appraiser.
- A high-end property is normally considered to be unique, unusual, or extraordinary for the local market.

Section 3 – General Information

"Throughout the spectrum of architectural features and choices, with art at one end and business at the other, a vast gray area exists, especially in the broad realm of residential construction. The goal, quite simply, is a home that reflects the owner's lifestyle choices, a balance between comfort and budget, and an appropriate regard for resale value. Much of that is accomplished through creating or adding features to a building that move the owner toward his or her vision of the perfect home – a blending of a technical science and a subjective art." - Robert Bick, Fair & Equitable.

Section 3 – General Information

Another term often used for high-end could be luxury. A 2017 article by Lisa Johnson Mandell titled “What is a luxury home and what makes it so special” gives several items that may define luxury. A number of these have already been used in describing high-end.

Section 3 – General Information

A high price for the area

Prime location

Premier quality

Luxe amenities

Privacy

Provenance – a history or place of importance

Section 3 – General Information

When the residential market made a large downturn in the late 2000's, most owners of high-end residential properties thought they were immune. The high-end market was affected too but was delayed from the effects more than typical homes. It was at least a year or more before the high-end market started to feel the effect of the recession.

When that market started to slow and prices decline, there were owners offering some unusual incentives.

Section 3 – General Information

- An around-the-world cruise with the home purchase.
- Home price includes a new Mercedes Benz.

The owners of Castlewood, a gothic castle in West Orange, NJ hosted a live jousting competition to generate buzz among real-estate brokers. Designed in the 1850’s, the 5,000-square-foot stone house is on two acres and features two towers, a staff apartment and a round bedchamber with a 28-foot-high domed ceiling.

Section 3 – General Information

Continuing to today's market, the high-end market varies greatly throughout the United States. In some areas the market has softened, and prices are being slashed. Other areas remain very strong.

High-End Residential Workshop

Section 3 – Economic Principles

- Conformity
- Substitution
- Contribution
- Supply & Demand

Section 3 – Conformity

McMansion

Section 3 – Supply & Demand

Economic principles

- Supply and Demand – Lake Quivira

Section 3 – Data Sources

This is truly a time for the appraiser to ‘think outside the box”.

“Data to be collected, analyzed, and processed can be divided into three categories: general, specific, and comparative. General data include trends that affect value and may occur on the national, regional and neighborhood levels. These data also include environmental (physical), economic, governmental, and social factors that affect value. Comparative data consist of recent sales, cost, and income information. Specific data consist principally of site and improvement data.”

Section 3 – Data Sources

- Historical Data
- Comparable Jurisdictions
- Fee Appraisers
- Real Estate Agents

Section 3 – Data Sources

- Statewide Databases
- Multiple Listing Services (MLS)
- Internet
- Marshall Swift (CoreLogic)
- Blueprints

Section 3 –Highest and best use

Often in mass-appraisal the current use is accepted as the highest and best use.

Legal statutes may not actually address this but local policy and/or appeal hearings or even court decisions may dictate this policy.

Section 3 – Highest and best use

If a high-end residential property is normally maintained and is in conformity with the neighborhood, then the current use is probably the highest and best use.

Section 3 -Highest and best use

If a property is unique and non-conforming, then the current use may not be the highest and best use.

Section 3 -Highest and best use

Consideration must be given then to the highest and best use as vacant and then as improved. Care must be exercised as current zoning laws and community policies may limit any other uses.

Section 3 -Highest and best use

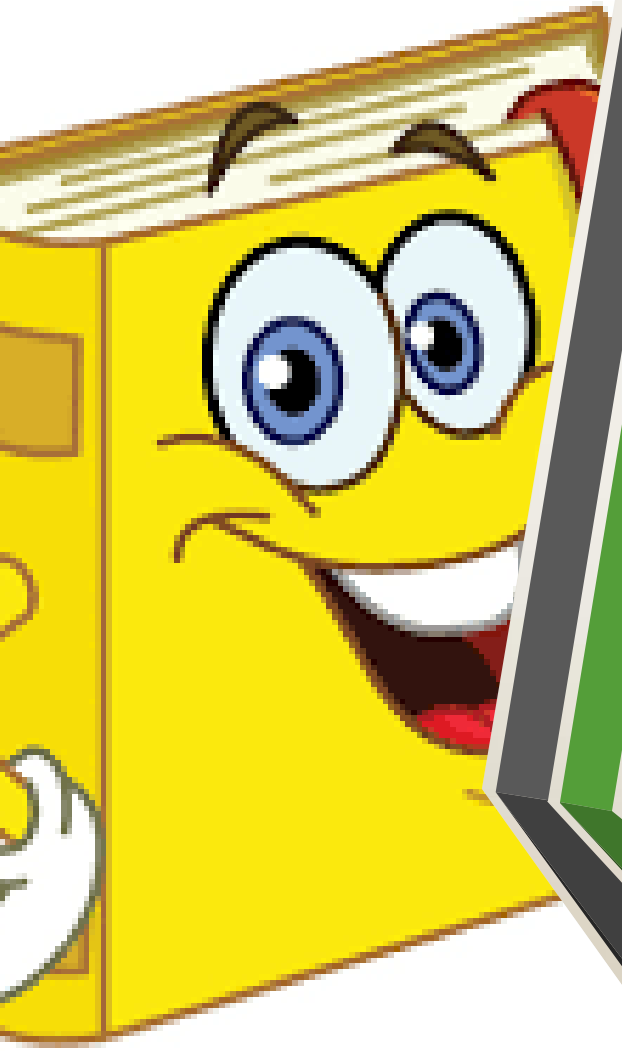
If the property is in an area of other high-end homes, then the ability to modify zoning for anything other than a similar replacement home may be limited, then the current use would remain the highest and best use.

Section 3 - Highest and best use

- Legally Permissible
- Physically possible
- Financially feasible
- Maximum productivity

Section 3 - Highest and best use

If the current use is deemed not to be the highest and best use, then the proposed use must be reasonable and a complimentary use to the area and not a competitive use.



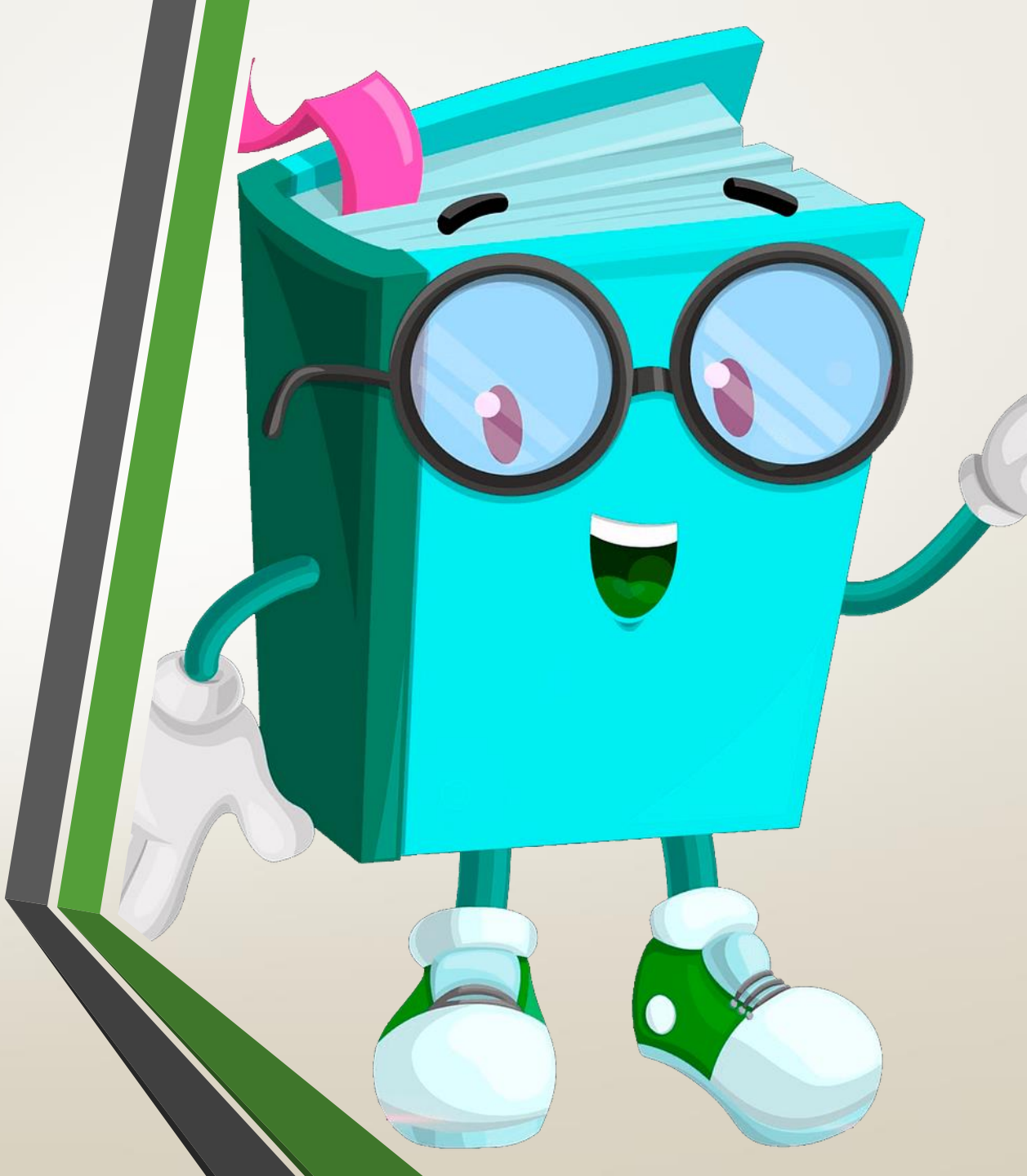
Section 3 - Highest and best use

In the book by Frank E. Harrison, MAI, SRA titled Appraising the Tough Ones, he discusses highest and best uses of a mansion.

"A mansion is not defined and can mean different things to different people, but most of us picture very large homes that often are the size of small hotels and on a large body of water such as an ocean."

Section 3 - Highest and best use

His comments are, “If the highest and best use is to convert the mansion to an alternative use, the appraiser will have to obtain comparables that can be used to value the property after the conversion and consider the money and time expended to achieve the alternative use.



Section 3 - Highest and best use

If the conversion is to take an extensive period of time, it may be necessary to estimate two values:

"the current value of the property and the prospective value when the conversion has been completed".

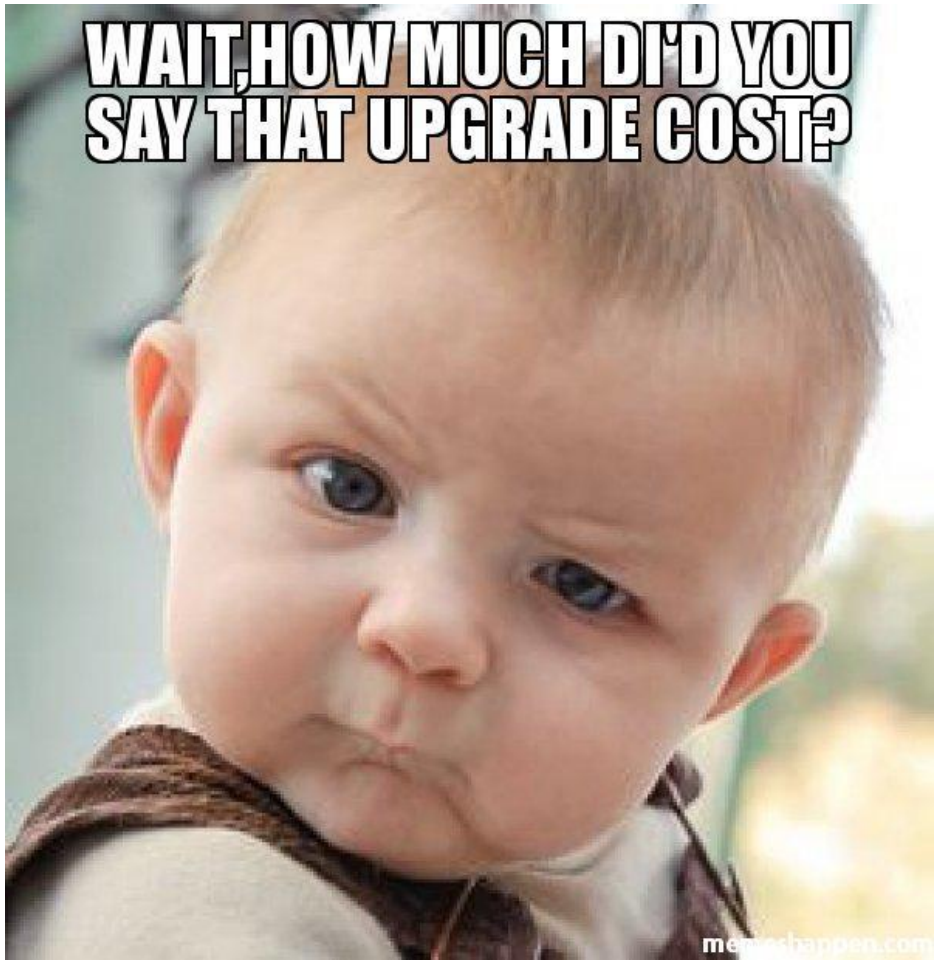
Section 3 - Highest and best use

Even if not faced with a mansion to appraise, the appraiser may determine the current and best use of a high-end residential property is not the current use.

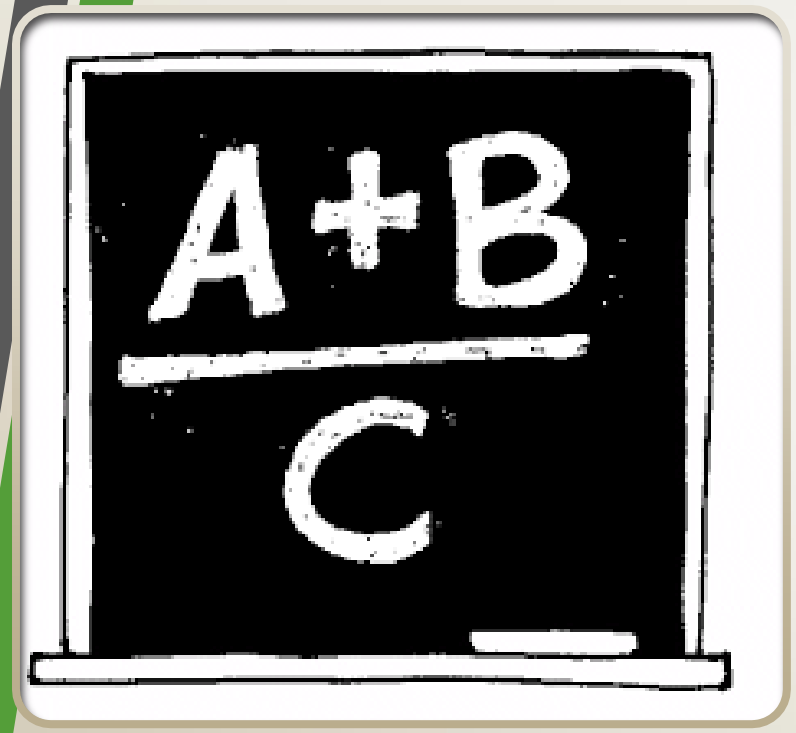
The process that Mr. Harrison outlined above could be used here also.

Section 3 - Approaches to value

The three standard approaches to value are the cost, sales comparison and income. Although each will have strengths and weaknesses for high-end residential properties, each application will be addressed in the workshop.



Section 4 – Cost Approach



Section 4 – Cost Approach

The cost approach to value provides a value indication that is the sum of the estimated land value and the estimated depreciated cost of the building and other improvements.

Section 4 – Cost Approach

The economic principle that provides the foundation for the cost approach is the principle of substitution.

Section 4 – Cost Approach

The principle of substitution states that a rational, informed purchaser will pay no more for a property than the cost of acquiring an acceptable substitute with like utility, assuming that no costly delay will be encountered in making the substitution.

Section 4 – Cost Approach

The cost approach works best for new improvements because construction costs are easier to estimate and there is less depreciation.

Section 4 – Cost Approach

Although the cost approach is not the preferred method for the valuation of high-end residential properties, it still must be considered.

The reality is that some jurisdictions only use the cost approach, and some state statutes require a cost approach value to be estimated.

Section 4 – Cost Approach

Because of the complexity and often unique or unusual design of high-end homes, the cost approach has very limited application.

In mass appraisal we often rely upon or must use this approach.

Estimating a cost approach can be difficult for these types of properties.

Section 4 – The Steps in the Cost Approach

- Estimate the land value as if vacant and available for development to its highest and best use.
- Estimate the total cost new of the improvements (RCN) as of the appraisal date, including direct costs, indirect costs and entrepreneurial profit from market analysis.

Section 4 – The Steps in the Cost Approach

- Estimate the total amount of depreciation attributable to physical deterioration, functional obsolescence and external obsolescence.
- Subtract the total amount of depreciation from the total cost new of the primary improvements to arrive at the depreciated cost of improvements.

Section 4 – The Steps in the Cost Approach

- Estimate the total depreciated cost new of any accessory improvements and site improvements.
- Add land value to the depreciated cost of the primary improvements, accessory improvements and site improvements to arrive at a value indication by the cost approach.

Section 4 – Cost Approach Formula

Value (V) =

Land Value (LV) + (Improvement Value (IV) - Depreciation (D)) + Other Building Value (OBV).

Section 4 – Types of Cost

- Direct Costs
- Indirect Costs
- Entrepreneurial profit

Section 4 – Concepts of Cost

- Reproduction Cost
- Replacement Cost
- Original Cost

Section 4 – Cost Considerations

Cost manuals are generally not designed to estimate the replacement cost new for these types of homes.

CAMA Systems (Computed Assisted Mass Appraisal) often will have a field with a title like ‘cost and design’ or ‘cost factor’ that allows the appraiser to make an addition or subtraction from the estimated cost new from the cost manual.

Section 4 – Cost Considerations

If the appraiser just uses appraisal judgment, supporting documentation is not available to justify the resulting RCN.

Instead, an attempt must be made to find the adjustment in the market.

Section 4 – Cost Considerations

- All high-end homes are not created equal.
- If the appraiser can find in their or other jurisdictions some actual cost of this type of property, then that can be used as a basis for the adjustment factor.

Section 4 – Cost Considerations

- Example:
- An adjoining jurisdiction had a new 10,600 square foot home built and the owner provided the actual cost of $2,349,200.
- This home is not exactly like the subject you are appraising but is very similar in size and complexity although a different house style.

Section 4 – Cost Considerations

- The adjoining county had estimated an RCN from their cost manual of $2,065,300. By using this information, a cost and design factor could be calculated as follows:

Section 4 – Cost Considerations

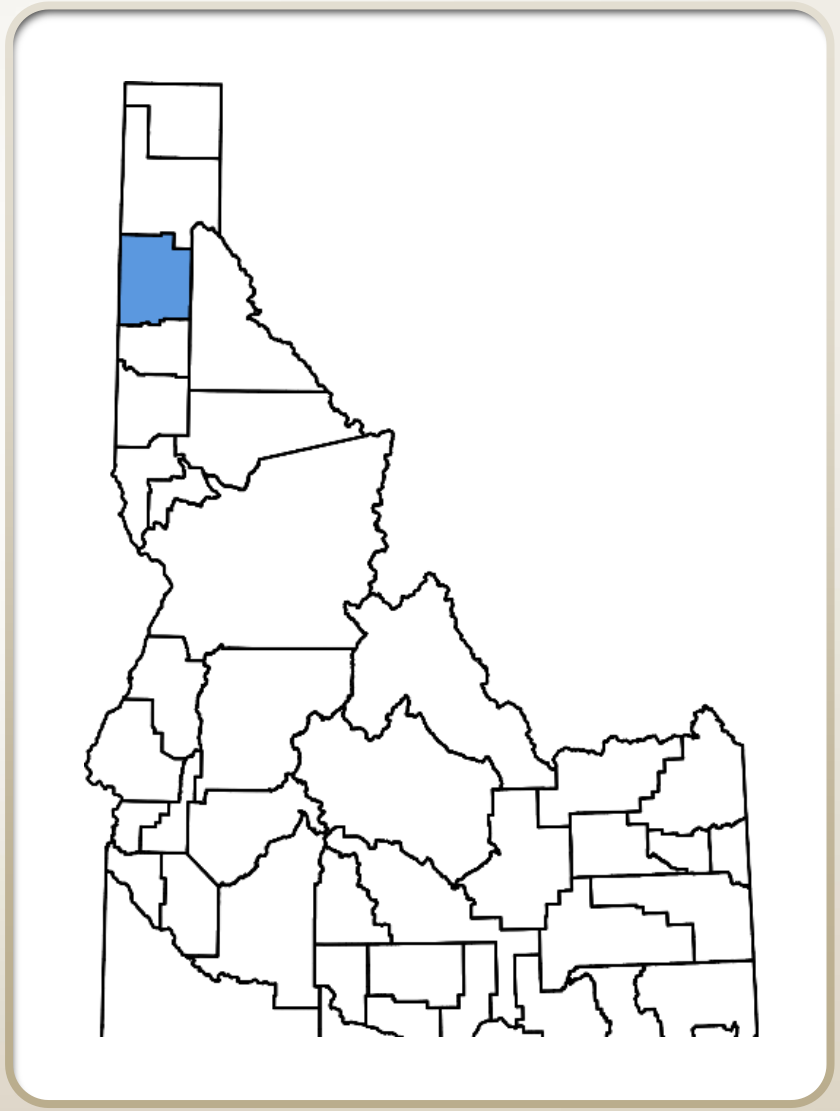
- $2,349,200 ÷ $2,065,300 = 1.1375

- You could then apply a factor of say 1.15 to your manual cost as an estimate of RCN for your high-end or difficult property.

Section 4 – Kootenai County

This is a process that was employed by the Kootenai County Assessor's Office in Idaho.

Idaho is not a disclosure state but through the appeals process and use of Multiple Listing Service, they were able to extract some information to develop costs.



Section 4 – Kootenai County

Their research showed as stated above that the typical cost manual would not be close to actual construction costs for these high-end homes.

Additionally, they found that even the Exceptional Home Guide from Marshall Swift was low. Some information the county provided is shown later and is a good representation of how to develop a reasonable cost approach value.

Section 4 – Kootenai County

In the information shown that follows, LCM is Local Cost Modifier and is an adjustment factor to modify the cost manual to be more reflective of actual cost.

An LCM of 175 represents a factor of 1.75 or that the cost manual is increased by 75%.

Section 4 – Kootenai County

HV stands for High Value and are additional grade factors above those available in the cost manual.

They noticed in the market and with discussions of buyers and sellers that as the HV grade increased, so did the amount of functional obsolescence.

Kootenai County Data

2008 LCM Excellent - High Value Dwellings					
2006 Grade	2007 Grade	2006 LCM	2007 LCM	2008 LCM	2008 Functional Obsol.
EXC -	EXC-	135	175	175	100
EXC	EXC	135	175	175	100
EXC+	EXC+	135	175	175	100

Kootenai County Data

2008 LCM Excellent - High Value Dwellings					
2006 Grade	2007 Grade	2006 LCM	2007 LCM	2008 LCM	2008 Functional Obsol.
HV3-	HV1	145	220	220	90
HV3	HV2	145	270	270	80
HV3+	HV3	145	290	290	80

Kootenai County Data

2008 LCM Excellent - High Value Dwellings

2006 Grade	2007 Grade	2006 LCM	2007 LCM	2008 LCM	2008 Functional Obsol.
HV6-	HV4	145	280	280	60
HV6	HV5	145	290	290	60
HV6+	HV6	145	310	310	60

Section 4 – Kootenai County

In the county analysis above, the quality ratings are shown as HV1-HV6.

These ratings would have a direct relationship to Marshall & Swift Exceptional Home ratings of Class I – VI.

Section 4 – Kootenai County

Although the number of square foot a home has is not directly related to the quality of the home, it can be a measuring stick.

The next table shows the quality rating and the square foot base for the base number of square foot for costing each quality rating in the Exceptional Homes guide.

Class	I	II	III	IV	V	VI
Base SF	7,200	8,400	9,200	10,000	12,000	14,000
Median SF Rate	$147	$162	$184	$229	$271	$325

Exceptional Home Guide

Section 4 – Cost Approach

Problem 4-1:

Your CAMA costs for a new home in your jurisdiction were found to be $165.28 per square foot. Using the table above, what would be the local cost multiplier if the quality was rated as Class IV, rounded to three places to the right of the decimal.

Section 4 – Cost Approach

Problem 4-1:

$229 ÷ $165.28 = 1.386

Section 4 – Cost Approach

Each of these classes also has adjustments for small homes such as under 2,000 etc.

A home does not have to be large to be expensive

Section 4 – Cost Approach

Some actual construction costs were provided by Valley County, Idaho from the Tamarack Resort area and most of the homes are smaller than anticipated for this upscale area.

Cost	Sq. Ft.	$ per SF	Year Built
$562,407	3,574	$157	2007
$664,000	3,216	$206	2007
$764,496	2,909	$263	2006
$561,000	1,992	$282	2005
$363,860	1,249	$291	2007
$511,000	1,516	$337	2005
$535,000	1,375	$389	2005

Actual Costs from Valley County, ID

Section 4 – Cost Approach

Again, Marshall & Swift state that the costs in their guides do not represent the highest residential costs.

This can be realized by comparing the residual home prices per square foot in Snohomish County to the cost new rate per square foot in the Exceptional Homes guide.

Section 4 – Cost Approach

Looking back to the Snohomish County data, a typical square footage from the sales was around 6,600 with a residual home value of $280 per square foot.

Section 4 – Cost Approach

By using the square footage table above, this would indicate a Class 1 home.

The median rate for square foot from the guide would be around $140-$150.

Section 4 – Cost Approach

This would indicate a local cost multiplier of 2 by the following calculations: $280 ÷ $140 = 2 or the same as a 200 or 200% increase from the cost table.

If we go back to the LCM calculated by Kootenai County for their HV1 (Class I) it shows 220.

Section 4 – Cost Approach

This would support their calculations and we must remember that the Snohomish data is residual home value that means there is some depreciation involved.

Section 4 – Cost Approach

Historical or original cost should also be considered if the cost is not too old.

Just remember that this is an unusual property so your parameters on how old of data you will use must expand.

Section 4 – Cost Approach

The subject you are appraising is seven (7) years old and the actual cost at the time of construction was $3,690,372.

To calculate the RCN you need to index or trend the original cost to the date of the appraisal.

Section 4 – Cost Approach

- At the back of the Marshall and Swift Residential Cost Handbook is a set of tables that show cost indices for each year.
- This could be used to measure the change within RCN.

Section 4 – Cost Approach

- Example: If the cost index for seven (7) years ago is shown as 1.45 and the current index is 1.68.

- By using those indices, you could calculate a trended original cost as follows:

1.68 ÷ 1.45 = 1.1586

$3,690,372 x 1.1586 = $4,275,665 Current RCN

Section 4 – Cost Approach

Section 4 – Cost Approach

The calculation is representing a 15.86% increase in the cost.

If that math formula does not make sense to you, then it can be calculated in the same manner as a time adjustment.

Section 4 – Cost Approach

1.68 – 1.45 = 0.23 change in index

0.23 ÷ 1.45 = 0.1586 percent of change in index

$3,690,372 x 0.1586 = $585,293 dollar change in cost

$3,690,372 + $585,293 = $4,275,665 new RCN

Section 4 – Cost Approach

This application is assuming that the cost changes in the high-end homes is the same as the more typical homes that the index is based upon.

The data may not be perfect, but it may be the best available.

Section 4 – Cost Approach

Problem 4-2:

According to the most recent costing information in the Marshall & Swift manual, the cost index is 1.35. Currently your CAMA system shows an index of 1.18. Rounding your index to three places to the right of the decimal point, what would be the current RCN on a home built for $1,879,000 when the index was 1.18?

Section 4 – Cost Approach

Problem 4-2:

$$1.35 \div 1.18 = 1.144$$

$$\$1,879,000 \times 1.144 = \$2,149,576$$

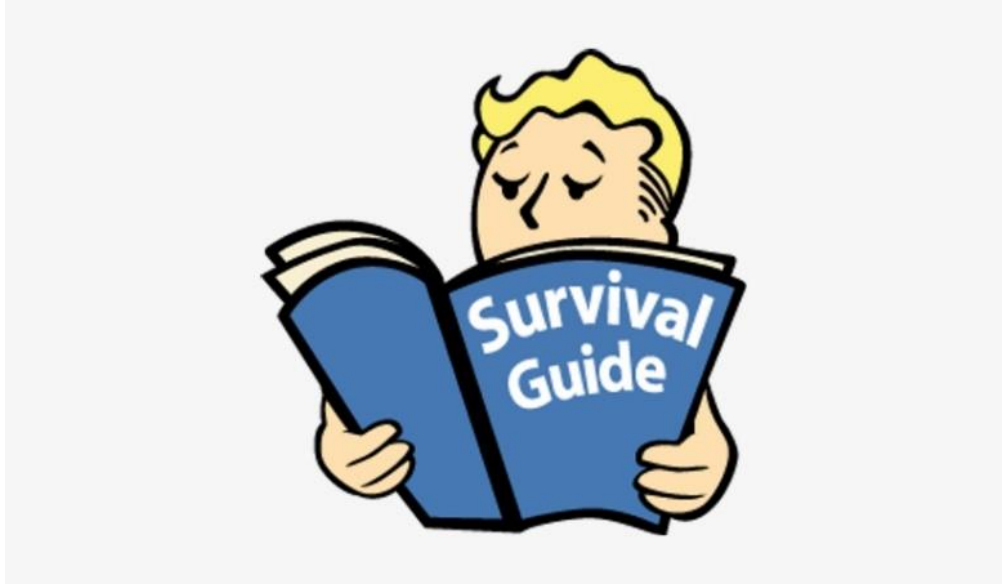
Section 4 – Cost Approach

Marshall & Swift also produces a valuation guide named Exceptional Homes.

This is a cost and reference guide for homes that are above the Excellent quality rating shown in their normal residential cost handbook.

Section 4 – Cost Approach

Several quotes and pieces of information from the Exceptional Homes follow.



Section 4 – Cost Approach

- "The costs listed may not be high enough for the most luxurious residences, built without regard for cost, since each listed cost represents the average of the costs within that quality range, excluding extremes.

Section 4 – Cost Approach

- As such, these special properties may be valued best by using the Segregated-Cost Method, where the pricing level of each individual component can be considered in detail and further refined from Unit-in-Place costs was warranted.”

Section 4 – Cost Approach

- **"Both stud and masonry walls have four exterior types of wall cladding normally found in high-value residences.**

- **Adjustments to the base cost are to be made for any roof cover other than the base, clay tile**

Section 4 – Cost Approach

- The four exterior types are: Stucco/Wood Siding, Face Brick Veneer, Rustic Stone Veneer and Ashlar Stone Veneer.

Section 4 – Cost Approach

- According to Wikipedia, Ashlar is dressed stonework of any type of stone. Ashlar blocks are large rectangular blocks of masonry sculpted to have square edges and even faces.

- The blocks are generally 13 to 15 inches in height.

Section 4 – Cost Approach

- When smaller than 11 inches, they are usually called "small ashlar".

- Ashlar blocks are used in the construction of many old buildings as an alternative to brick.

Section 4 – Cost Approach

- Generally, the external face is smooth or polished; occasionally it can be decorated by small grooves achieved by the application of a metal comb.

- (This process is usually used only on a softer stone ashlar block. The decoration is known as mason's drag.)

Section 4 – Cost Approach

Quality ratings are Class I through Class VI. "Do not restrict yourself to the overall quality of the basic residence when making your adjustments.

A Class II residence could easily have some components normally found in a Class V residence.

Section 4 – Cost Approach

- For example: The quality of a fireplace in a Class II residence requires an additional upward adjustment because of its unique style or design.

- Selecting the cost at Class V to account for this style or design would be appropriate.”

Section 4 – Cost Approach

- **A good method to establish consistency for those setting quality ratings is to develop a quality picture guide.**

Section 4 – Cost Approach

With most jurisdictions having digital cameras, you would be able to take many images of various quality homes and then as a group discuss and record the quality.

Section 4 – Cost Approach

- This would be helpful for field review, quality control and for appeals.
- As the quality is a key element in determining the replacement cost new, consistency in the rating is very important.

Section 4 – Cost Approach

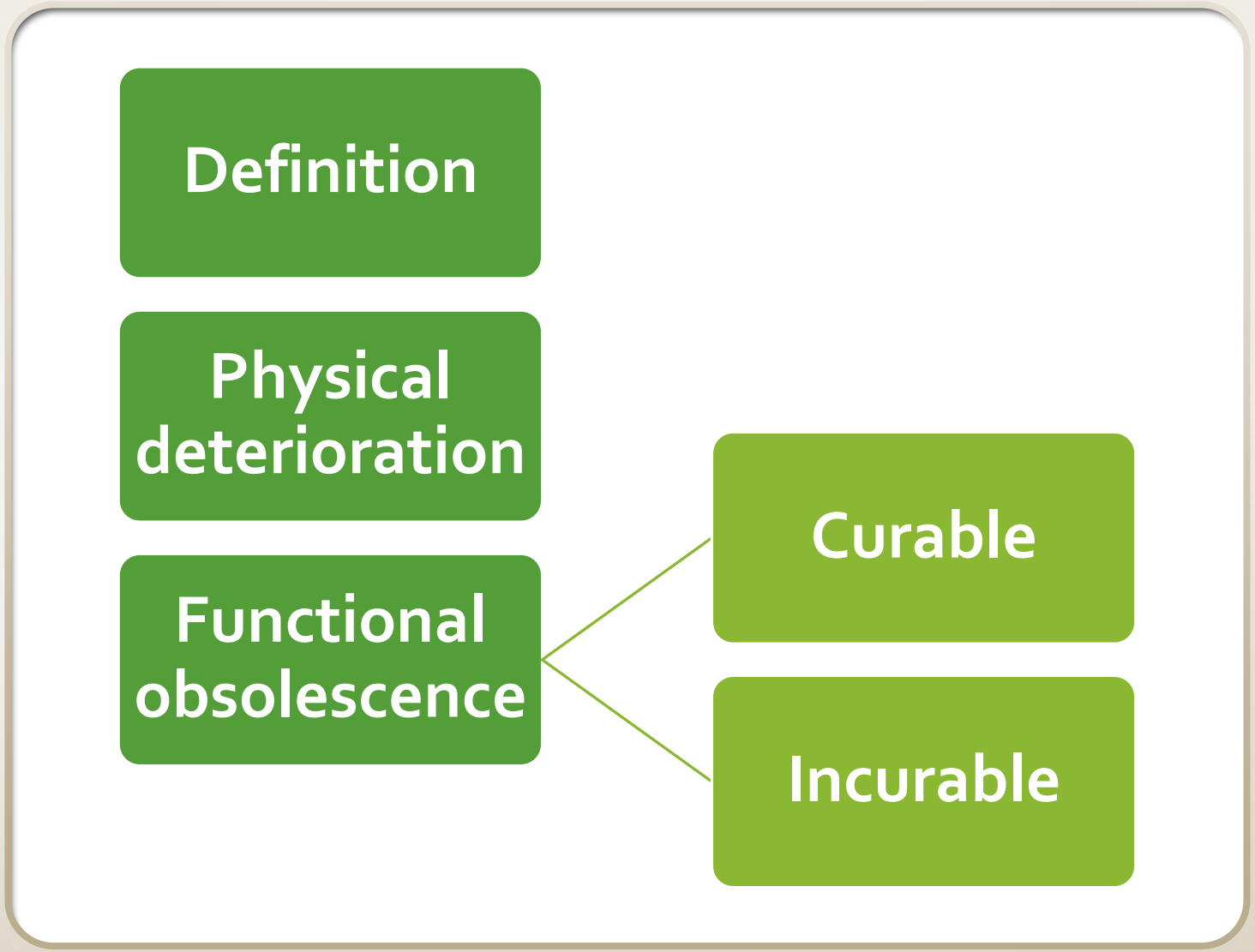
- This would be especially important for the high-end homes, anything that you would be rating above the Excellent quality.

Section 4 – Contractor Costs

- Contractor cost -If you have good rapport with a contractor that builds or has built some high-end or difficult properties, they may give you some guidance about additional costs that normally occur that would not be seen in more typical homes.

- Do not fail to ask if they will provide an actual estimate of the cost to you.

Section 4 – Depreciation



Section 4 – Depreciation

- There is a potential for high-end homes to have functional obsolescence because of an unusual design or poor room arrangement.
- An example might be a 5,000 square foot home that is basically one large open room and only one-bedroom.

Section 4 – Depreciation

The lack of functionality would limit the number of potential buyers and could create a loss of market value.

Measuring this amount of functional obsolescence would be difficult.

Section 4 – Depreciation

- Finding sales of properties such as this would be almost impossible and then finding a matched sale with normal room arrangement for comparison purposes would increase the probability of not finding the needed sales.

Section 4 – Depreciation

- Using other sales of unique design and or poor room arrangement and applying them to the subject as a percentage of functional obsolescence would be superior to simply making an appraisal judgment.

Section 4 – Depreciation

- **Sale price versus asking price: This analysis could be helpful so when a high-end property is placed on the market, the appraiser may be able to estimate the upper end of value.**

- **For example: A residence is listed for sale at $4,300.000.**

Section 4 – Depreciation

- Your previous analysis has indicated that homes in your jurisdiction that sell for more than $2,000,000 generally sell for 85% of asking price

Section 4 – Depreciation

- Asking to selling price ratio for typical homes is 96% then you could draw a conclusion that the difference could be functional obsolescence as the home is more unique and has less market appeal.
- The amount of adjustment would be: 85 ÷ 96 = 0.89 or an 11% decrease.

Section 4 – Cook County

An analysis was conducted of the sale price to asking price ratio between years of sale.

This may indicate if the market is changing if the ratios change substantially.

The formula is sale price ÷ asking price.

Section 4 – Cook County

The ratio was very consistent for the years 2005-2007 and then the sales in 2008 saw a large change.

This could be an indication that the sellers still wanted prices that could no longer be attained and had to reduce the price to sell.

Sale Month	Sale Year	Sale Price	Asking Price	SP/AP	Mean	Median
4	2005	$4,180,000	$3,675,000	1.14		
4	2005	$3,580,000	$3,745,000	0.96		
6	2005	$3,540,000	$3,675,000	0.96		
10	2005	$4,000,000	$4,100,000	0.98	1.01	0.97
2	2006	$3,900,000	$3,995,000	0.98		
7	2006	$4,895,000	$4,975,000	0.98		
7	2006	$3,330,000	$3,475,000	0.96		
10	2006	$4,875,000	$5,600,000	0.87		
12	2006	$3,150,000	$3,795,000	0.83	0.92	0.96
1	2007	$3,825,000	$3,975,000	0.96		
5	2007	$3,950,000	$3,999,999	0.99		
6	2007	$5,028,237	$5,295,000	0.95		
8	2007	$4,850,000	$4,975,000	0.97		
12	2007	$3,575,000	$3,785,000	0.94	0.96	0.96
2	2008	$4,075,000	$4,275,000	0.95		
10	2008	$3,725,000	$4,200,000	0.89	0.92	0.92
			All Years		0.96	0.96

Section 4 – Depreciation

- Normal functional obsolescence is considered a part of most physical deterioration tables.

- Normal functional obsolescence can best be determined by use of paired sales analysis.

Section 4 – Depreciation

- The sales need to be adjusted for time if necessary.
- After the time adjustment has been made, the difference between the two sale prices would be the dollar amount of functional obsolescence.

Section 4 – Depreciation

- Functional obsolescence can also be calculated by the capitalization of rent loss, but this would be a stretch for use in high-end residential properties.

Section 4 – Depreciation

- An example of extracting additional or non-typical functional obsolescence is as follows.
- A very large high-end home sold and indicated depreciation of 40% with market sales indicating the typical depreciation should be 28%.

Section 4 – Depreciation

	Sale
Sale Price	$4,867,000
Land Value	-$1,250,000
Improvement Value	$3,617,000
RCN	$6,028,000
Improvement Value	-$3,617,000
Depreciation	$2,411,000
RCN	÷$6,028,000
% Depreciation	0.40 = 40%

Section 4 – Depreciation

RCN for the Affected Property	$6,028,000
Physical at 28%	-$1,687,840
RCN Less Physical	$4,340,160

RCN Less Physical	$4,340,160
RCNLD from sale	-$3,617,000
Additional Depreciation	$723,160

Section 4 – Depreciation

Section 4 – Depreciation

External obsolescence - The loss in value brought about by changing economic forces such as changes in highest and best use, legislation, etc.

External obsolescence is often referred to as locational or economic obsolescence.

Section 4 – Depreciation

- This may be found in a jurisdiction by comparing sales of comparable properties in different economic areas of the jurisdiction.

Section 4 – Depreciation

Normal external obsolescence can best be determined by use of paired sales analysis.

Section 4 – Depreciation

The sales need to be adjusted for time if necessary.

After the time adjustment has been made, the difference between the two sale prices would be the dollar amount of external obsolescence.

Section 4 – Depreciation

External obsolescence can also be calculated by the capitalization of rent loss, but this would be a stretch for use in high-end residential properties.

The rent loss may be attributable to normal obsolescence and only above normal external would need to be adjusted.

Section 4 – Depreciation

- One method of exacting a locational adjustment between jurisdictions is by vacant land sales.
- The percent of difference would be an indication of the market differences for the location and then can be applied to the improvement also.

Section 4 – Depreciation

The perfect situation would be if the subject was a recent land sale, and an exact match was found.

Lacking that, you could use similar properties.

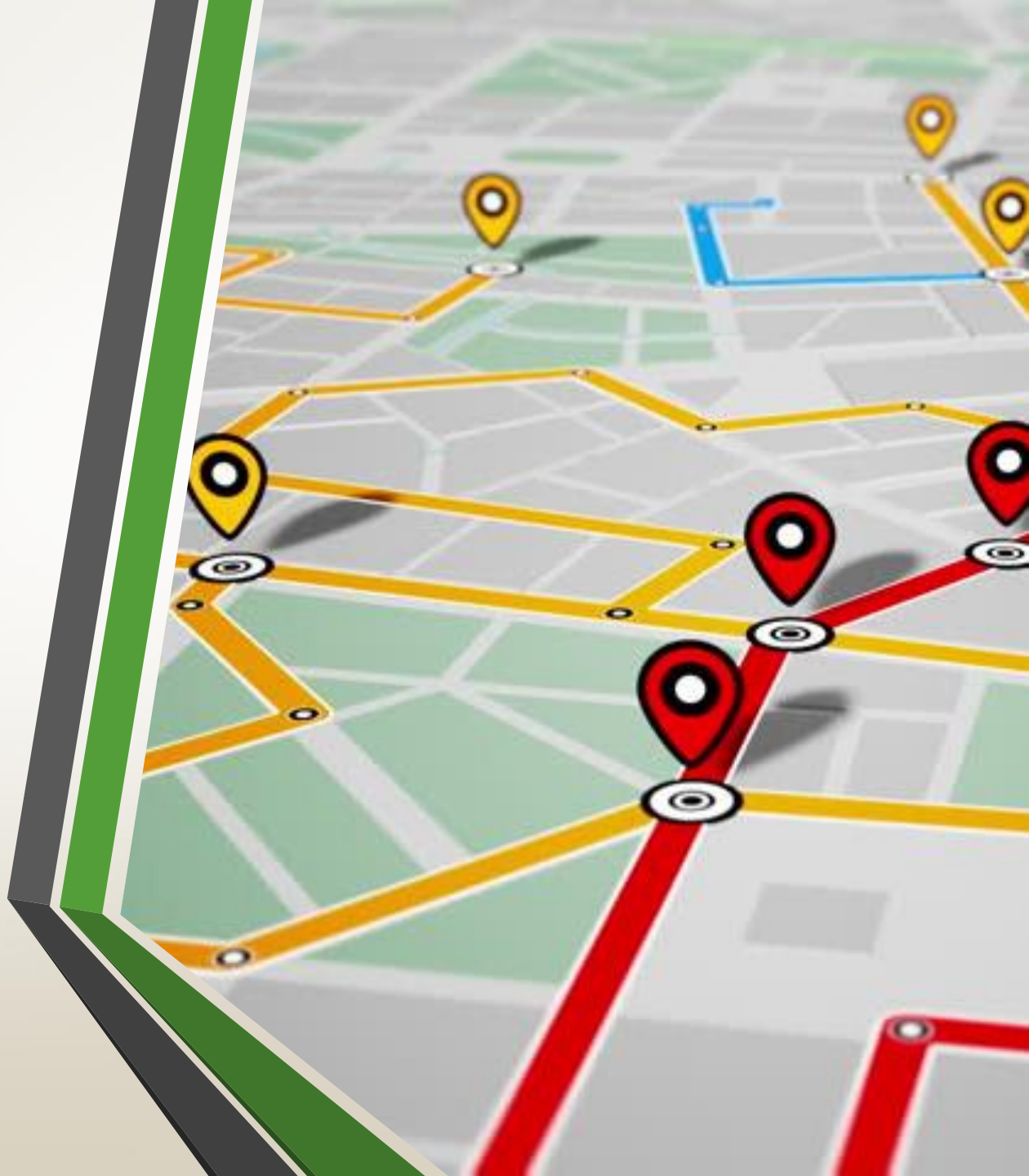
Section 4 – Depreciation

- Additionally, you could determine the median price per unit for the subject area land sales and the median price for another area.

- The difference would be the percentage adjustment for location.

Section 4 – Depreciation

- Comparable sales in other similar jurisdictions can be used to calculate external location to adjust any sales that may be used from that jurisdiction.



Section 4 – Depreciation

- If the appraiser finds comparable sales, how would they know if the value indication for the subject is reasonable?
- Determining what to use as the subject.

Section 4 – Depreciation

- Two (2) sales were chosen from each county.

- These counties were selected because of comparable locations, market activity and economic climates.

Section 4 – Depreciation

The land value should be recalculated using your jurisdiction values.

A cost value for each of the other jurisdiction sales was determined as if they were in your jurisdiction.

Section 4 – Depreciation

Then the difference would be a check for any external obsolescence.

The percent of difference is calculated by the cost approach divided by the time adjusted sale price of each alternate comparable sale.

Alternate Comparable External Obsolescence

	TASP (Time Adj. Sale Price)	Cost Approach Value	Percent Difference
Jurisdiction #1	$83,000	$93,200	12.29%
Jurisdiction #1	$84,900	$97,300	14.61%
Jurisdiction #2	$88,600	$92,160	4.02%
Jurisdiction #2	$105,600	$118,440	12.16%

Section 4 – Depreciation

- Based upon this limited data, Jurisdictions #1 and #2 are about 12% less valuable and this would be attributable to external or locational obsolescence.

Section 4 – Depreciation

- **Therefore, any high-end sales used from these jurisdictions would have to be increased by 12% to reflect the superior location of your jurisdiction.**

Section 4 – Cost Approach

Problem 4-3:

After calculating the residential home value from a comparable sale in a similar jurisdiction you found the rate per square foot to be $148. A similar unique home in your jurisdiction just sold for a square foot rate of $182. Using these two sales, what would be the indication of a locational adjustment?

Section 4 – Cost Approach

Problem 4-3

182 ÷ 148 = 1.23 or 25%

Or

182 – 148 = 34

34 ÷ 148 = 0.23 or 25%

Section 4 – Land Valuation

- Normally the land value will be based upon site and not raw land value. A site is a tract of land that has been developed to the extent that it is ready to be built on.

- The site analysis process involves the collection of site-specific data and the analysis of that data to see how it affects market value.

Section 4 – Land Valuation

- The appraiser should look at the appropriate appraisal principles, the land classifications and the regional, city and neighborhood trends that have an affect on value.

Section 4 – Land Valuation Trends

- Physical
- Economic
- Governmental
- Social

Section 5 - Land Valuation Site Characteristics

FRONTAGE

WIDTH

DEPTH

SHAPE

AREA

TOPOGRAPHY

Section 4 – Stratification

The first step in the site analysis process is stratification.

Stratification is simply the sorting of data into homogeneous groups.

Section 4 – Stratification

- It is important to group properties together that are affected by the same trends and characteristics that drive value.

Section 4 – Stratification

- Location (neighborhood or economic area) is typically the first criteria used in the stratification process.

Section 4 – Stratification

- Other factors that should be considered include school districts, zoning, land use controls, off-site and on-site improvements, etc.

Section 4 – Stratification Example

Sale #	Sale Price	Size	View Type
1	$965,000	2.50	Mountain
2	$925,000	2.25	Mountain
3	$1,110,000	2.40	Mountain & Lake
4	$1,095,000	2.45	Mountain & Lake
5	$950,000	2.50	Mountain
6	$972,000	2.55	Mountain

Section 4 – Stratification Example

Sale #	Sale Price	Size	$ per Acre
1	$965,000	2.50	$386,000
2	$925,000	2.25	$411,111
5	$950,000	2.50	$380,000
6	$972,000	2.55	$381,176

Section 4 -Stratification Example

The median price per acre is $383,588 and the mean is $389,582. Indicated value would be $383,600 per acre.

The second stratification would be for the parcels with Mountain and Lake View.

Section 4 – Stratification Example

Sale#	Sale Price	Size	$/Acre
3	$1,110,000	2.40	$462,500
4	$1,095,000	2.45	$446,939

Section 4 – Stratification Example

The median and mean price per acre is $454,720 or $454,700.

The adjustment for also having Lake View would be:

$454,700 ÷ $383,600 = 1.19 = 1.20 or a 20% premium

Section 4 - Units of comparison

A unit of comparison is developed by the appraiser to determine how property sells in the marketplace.

A unit of comparison expresses the sale price as a price per unit.

Section 4 - Units of comparison

As not all land is the exact same size, units of comparison will show the relationship between lots that are not identical.

Section 4 - Units of comparison

- Front foot
- Square foot
- Acre
- Site

Section 4 – Land Valuation Methods

Sales Comparison

Allocation

Abstraction

Section 4 - Land Valuation (Sales)

When sales are available, this method is the preferred method to find land value.

The sales used in this approach must be valid arms-length sales transactions.

The subject parcel is compared with similar parcels that have recently sold and adjustments are made for any differences between the subject property and the comparable.

Adjustments are always made to the comparable properties not the subject property.

Section 4 - Land Valuation (Allocation)

This method is the process of allocating a portion of the total property value to be land value. The allocation can be expressed as a percentage or as a land-to-building ratio.

This method works best in older neighborhoods where there are no vacant land sales.

Section 4 - Land Valuation (Allocation)

The method is based on finding comparable properties in comparable neighborhoods where vacant land sales are available. The appraiser would determine the land percentage or a land-to-building ratio from the comparable neighborhood and then apply either to the subject neighborhood to establish land value.

Section 4 - Land Valuation (Allocation)

This would work for high-end residential properties also. It is based upon the principle of balance. The principle of balance states if areas are comparable, then the land-to-building ratios will be similar.

Therefore, if land is 25% of the overall property value for high-end homes in one area of your jurisdiction or in other jurisdictions, then that percentage would be a reasonable expectation in other comparable areas.

Cook County Allocation

Sales data was available for several land and improved property sales from Cook County – Chicago, Illinois.

The sales were not analyzed to determine the appropriate unit of measure, but the allocation process was used to determine what percent land value was in relationship to total property value.

Cook County Allocation

- **It is not unusual that the land value for high-end homes will be a higher percentage than for typical residential properties.**

Cook County Allocation

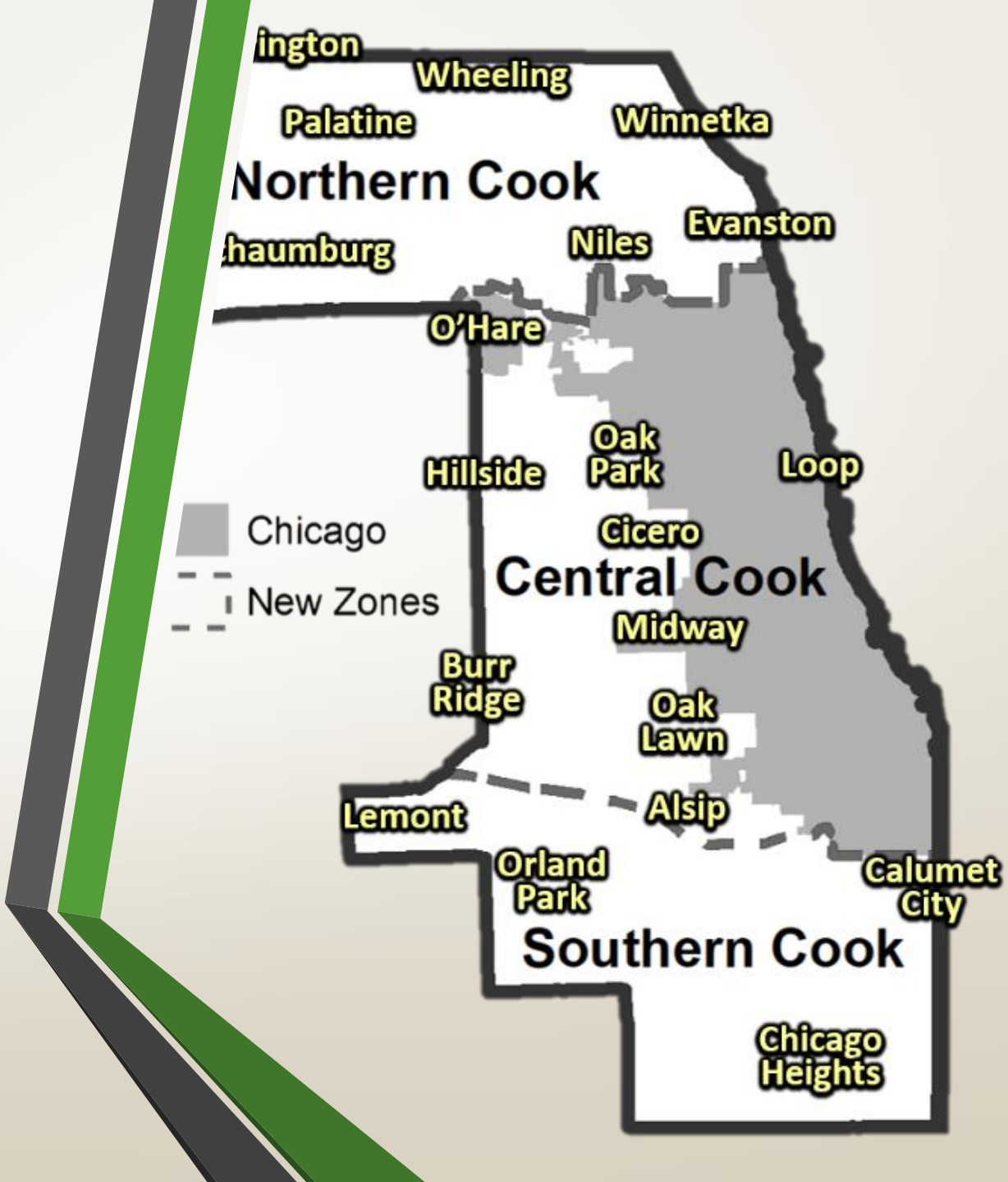
- **The reasons for this are normally,**
- **1) land is in a more desirable area such as along or on a body of water or has an above average view**
- **2) land purchase consisted of an existing improvement and thus additional land cost because of the "teardown" of an existing improvement.**

Cook County Allocation

- **Any teardown costs or other costs preparing the site for construction of the new home would need to be added to the purchase price to establish the land value. This is based upon the principle of substitution.**

Cook County Allocation

- **In the data for Cook County, no teardown costs or additional cost was considered as this information was not available. The data however was very consistent as shown on the next slide.**



Cook County Sales Data (2005)

Sale Month	Sale Year	Sale Price	Land Sale	Land Pct	Mean	Median
4	2005	$4,180,000	$1,500,000	0.36		
4	2005	$3,580,000	$712,500	0.20		
6	2005	$3,540,000	$1,300,000	0.37		
10	2005	$4,000,000	$875,000	0.22	0.29	0.29

Cook County Sales Data (2006)

2	2006	$3,900,000	$1,445,000	0.37		
7	2006	$4,895,000	$1,990,000	0.41		
7	2006	$3,330,000	$1,230,000	0.37		
10	2006	$4,875,000	$1,400,000	0.29		
12	2006	$3,150,000	$1,275,000	0.40	0.37	0.37

Cook County Sales Data (2007)

1	2007	$3,825,000	$1,568,500	0.41		
5	2007	$3,950,000	$1,250,000	0.32		
6	2007	$5,028,237	$1,950,000	0.39		
8	2007	$4,850,000	$1,575,000	0.32		
12	2007	$3,575,000	$1,500,000	0.42	0.37	0.39

Cook County Sales Data (2008)

2	2008	$4,075,000	$1,625,000	0.40		
10	2008	$3,725,000	$675,000	0.18	0.29	0.29

Cook County Allocation

- **Overall Mean is 0.34 and the Median is 0.37.**
- **A trend may be apparent in the data in that the median land percentage for 2005 sales and 2008 was 30% but for 2006 and 2007 it was almost 40%.**

Cook County Allocation

- This trend could be a reflection of the real estate market during those time periods.
- A 30% land value for high-end residential would not be unusual.

Section 4 - Abstraction

Abstraction is another method that can be used if you do not have vacant land sales in a neighborhood.

This method uses elements of the cost approach (depreciation) and then derives a land value by abstracting it from sale prices of improved properties. This method is best to use on newly constructed properties because the structures should have very little depreciation.

Sale Price – Depreciated Value of the Building (RCNLD) = Land Value.

Section 4 – Land Valuation

- As the cost approach often must be calculated or will be used for the valuation of the property, do not take this step lightly.

Section 4 – Land Valuation

- It would be typical that a high-end home would be on a tract of land that may have a view so make sure that you stratify your land sales and recognize the value of the land correctly.

Section 5 – Sales Comparison

Section 5 – Sales Comparison

The sales comparison approach uses the market to estimate value by comparing the subject property to similar properties that have recently sold.

It is based on the economic principles of supply and demand, substitution and contribution.

Section 5 – Sales Comparison

This approach to value is generally one that you will use for high-end residential properties.

In the book by Frank E. Harrison, MAI, SRA titled Appraising the Tough Ones, makes the following statements about using the sales comparison approach for high-end residential properties.

Section 5 – Sales Comparison

"Unique design single-family residences constitute their own submarket, and an appraiser can use sales of other homes of unique design as comparables, even if their design is different."

Section 5 – Sales Comparison

"This is true because the factors motivating the buyers of the homes are the same – i.e., the desire to own a unique design residence. The only meaningful approach to value is the sales comparison approach".

Section 5 – Sales Comparison

Market data may not be available to calculate a time trend for high-end residential properties.

Changes in the market for this type of properties may not be at the same rate as more typical homes.

Section 5 – Sales Comparison

Sometimes you will find articles in national magazines or on various web sites that will address value trends in high-end or luxury homes.

Trends are often locational and may not affect your particular area the same.

Section 5 – Sales Comparison

However, that type of information, especially if it is indicating a downturn in values, is exactly what the property owner will provide in attempting to get a value reduction.

Section 5 – Sales Comparison

Lacking actual data to the contrary, the appraiser may have to assume the uniqueness of the property will cause a similar affect in your area.

Section 5 – Sales Comparison

Adjustments in the comparable sales approach may not include that many items.

Time or market conditions were discussed above, location would obviously be a large contributor or distracter of value, condition and possibly financing.

Section 5 – Sales Comparison

Quality of structure may be considered but if it is truly a high-end or luxury home, the quality generally will not vary that much.

→

Does it really matter if that 10,000 square foot home has 5 or 8 bedrooms or 6 or 10 bathrooms?

Section 5 – Sales Comparison

If there is some type of creative financing involved, then perhaps you may want to review the section on finance adjustment in the IAAO's Property Appraisal and Assessment Administration, pages 139 and 201.

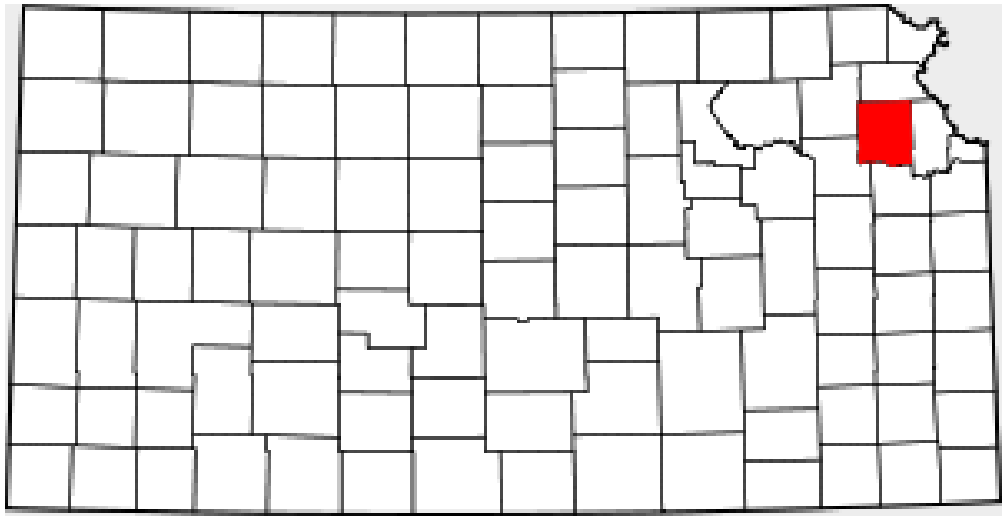
Section 5 – Sales Comparison

Locational adjustments were discussed in the cost approach section and would be used for any adjustments for sales comparison also.

Quality adjustment factors used in the cost approach could also be used in the sales comparison approach.

Section 5 – Sales Comparison

Information that follows is on an actual analysis for a high-end residential property in a small rural jurisdiction (Jefferson County, Kansas).



Section 5 – Sales Comparison

Another form of limited residential sales is in the form of large or unique homes.

Almost all jurisdictions will have an extremely large home with no good available comparable sales.

Section 5 – Sales Comparison

The same avenue, as addressed earlier (cost approach section for location) for finding sales would be employed:

Comparable jurisdictions, fee appraisers, realtors, statewide databases, MLS and the Internet.

Section 5 – Sales Comparison

Although you could try the same techniques as given above, finding good comparables would be very difficult.

Therefore, an adjusted price per square foot will be used for a unit of comparison.

Section 5 – Sales Comparison

Built in 1992

Contains 8,636 square foot of living area plus 4,086 square foot of recreation room in the basement.

Recreation room is classified as a finished area of lower quality than the main floor living area.

Section 5 – Sales Comparison

Three (3) sales from Jefferson County were used plus three (3) sales from an adjacent county and one (1) sale from another adjacent county.

Front of Subject

Back of Subject

County Sale #1

County Sale #2

County Sale #3

Alternate Sale #1

Alternate Sale #2

Alternate Sale #3

Alternate Sale #4

Subject Property Compared to County Sales Comparables

	Subject	County #1	County #2	County #3
Sale Date		June 2005	May 2007	May 2007
Sale Price		$290,000	$335,000	$395,000
Square Foot of Living Area	8,636	3,971	3,360	4,062
Square Foot of Recreation Room	4,086	0	0	0
Construction Grade	X	B-	C	B-

Subject Property Compared to Alternate Comparables

	Subject	Alternate #1	Alternate #2	Alternate #3	Alternate #4
Sale Date		June 2005	February 2006	May 2005	June 2005
Sale Price		$642,500	$445,000	$346,000	$328,000
Square Foot of Living Area	8,636	7,500	4,449	4,101	3,281
Square Foot of Recreation Room	4,086	0	0	0	
Construction Grade	X	A-	B+	B	B

Section 5 – Sales Comparison

The first step would be to develop a unit of comparison. The square footage was chosen as the unit of comparison not including the recreation room for the subject. Land value was subtracted from the sale price and divided by the square foot and then adjusted for the grade difference to equal the subject.

$/SQFT of County Comparables

	COUNTY #1	COUNTY #2	COUNTY #3
Sale Price	$290,000	$335,000	$395,000
Land Value	$21,720	$56,700	$107,410
Improvement Value	$268,280	$278,300	$287,590
Square Foot of Living Area	3,971	3,360	4,062
Dollars per Square Foot	$67.56	$82.83	$70.80
Grade Adjusted per Square Foot	$83.73	$120.10	$87.74

The Grade Adjusted per Square Foot is based upon a factor calculated by the subject grade factor divided by the comparable grade factor.

The comparables Dollars per Square Foot and the adjustment factor calculated are then multiplied to determine a Grade Adjusted per Square Foot rate.

Alternate Sales per SQFT and Grade Adjusted

	Alternate #1	Alternate #2	Alternate #3	Alternate #4
Sale Price	$642,500	$445,000	$346,000	$328,000
Land Value	$80,000	$71,500	$18,500	$70,340
Improvement Value	$542,500	$373,500	$327,500	$257,660
Square Foot of Living Area	7,500	4,449	4,101	3,281
Dollars per Square Foot	$72.33	$83.95	$79.86	$78.53
Grade Adjusted per Square Foot	$92.28	$90.17	$91.90	$90.37

The sales were then arrayed by square footage showing the Grade Adjusted $/SF.

The thought was this would display a regression line showing a reduction in value as the square footage gets larger.

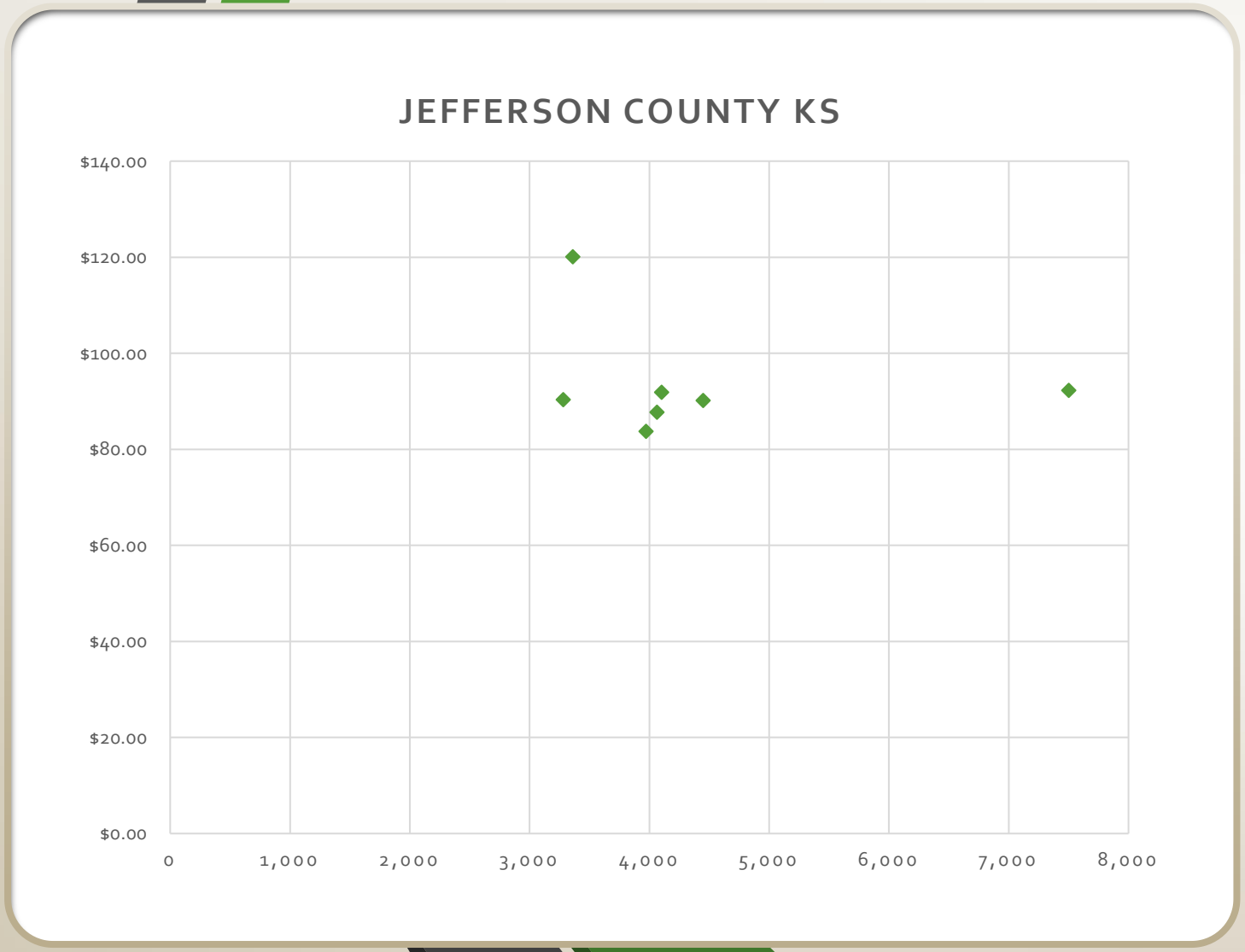
The principle of diminishing marginal utility states, The more one consumes of a good, relative to any other good, the less one will desire additional units of that good.

For example, buyers of residential properties prefer two bathrooms to one, and a third is even better. Buyers, however, may not be willing to pay as much for a third bathroom as a second, and will pay even less (if anything) for a fourth or fifth bathroom" (IAAO, Property Assessment and Valuation).

It is typical that in larger homes, that the dollars per square foot would be less for the largest homes.

$/SQFT for all Sales

Square Foot	Grade Adjusted per Square Foot
3,281	$90.37
3,360	$120.10
3,971	$83.73
4,062	$87.74
4,101	$91.90
4,449	$90.17
7,500	$92.28



Regression Analysis of $/SQFT of Sales

Outside of the second occurrence listed above, all the indications of Grade Adjusted per Square Foot are amazingly close.

There does not appear to be any reduction in value for size, with the sales indicating that the rate per square foot for the living area to be around $90.

True, there are no sales of homes as large as the subject, but you can only analysis data that is available.

Indicated value for the subject's 8,636 square foot of living area would be:

Indicated Subject Value	
8,636 x $90 / square foot	$ 777,240
Recreation room value (RCNLD)	$ 103,940
Land value	$ 65,590
Indicated value	$ 946,770

Considering the lack of comparables, the indicated county values were all very tight, but based upon the analysis of comparable sales, overall were about 17% to 26% too high.

Subject Property's Valuation

Cost Approach Value	$ 1,108,850
MRA Value	$ 1,085,181
Weighted Estimate Value	$ 1,170,087
Sales Comparison Approach Value	$ 1,161,700

Section 5 – Sales Comparison

Problem 5-1:

You have found a comparable in another jurisdiction, but the quality of that home is Class II and your subject is a Class III. Using the Exceptional Homes cost per square foot in the Cost Approach section, what would be the adjustment for the quality difference rounded to three places to the right of the decimal.

Section 5 – Sales Comparison

Property 5-1:

Class III = $184 Class II = $162

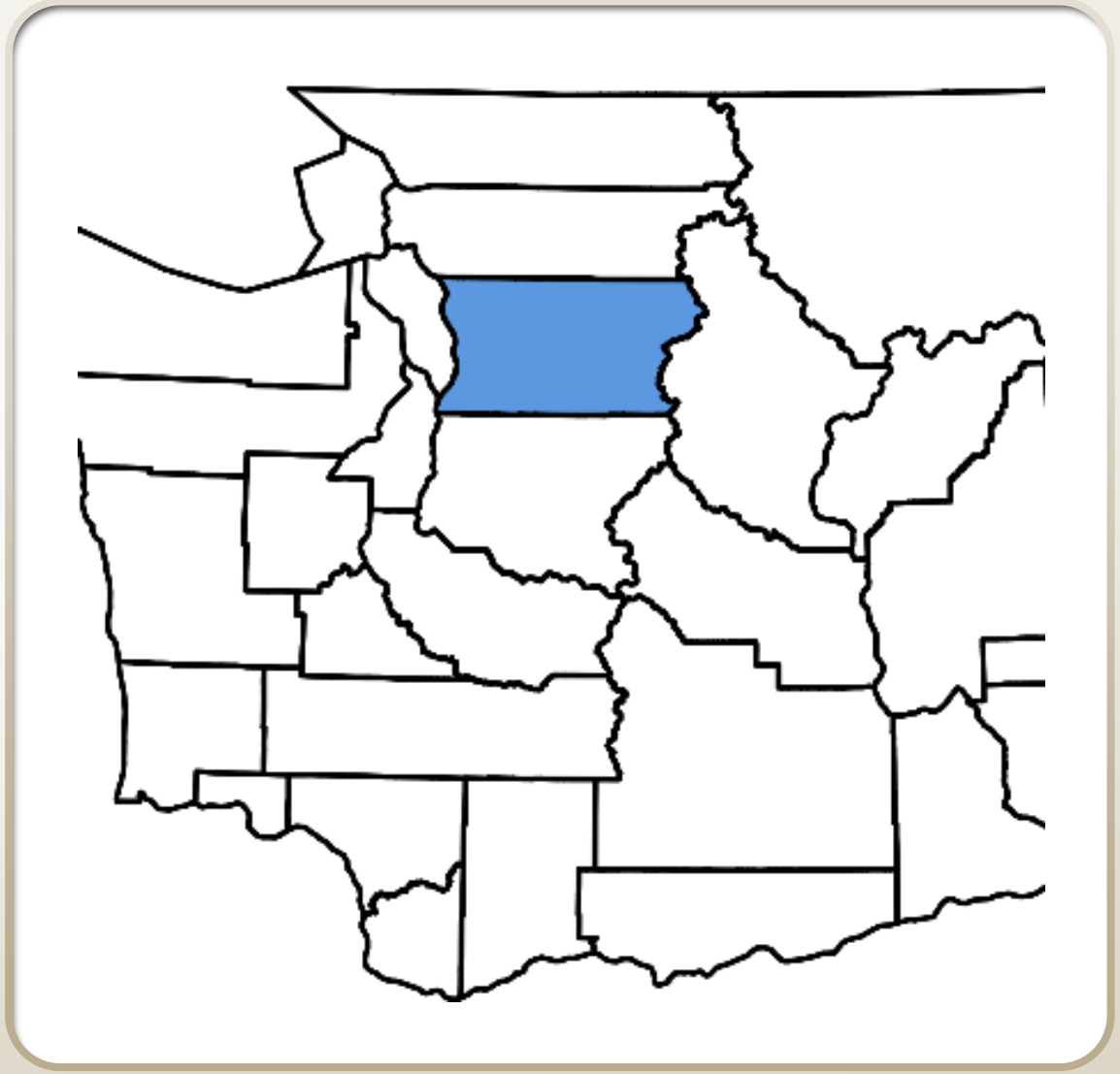
$184 ÷ $162 = 1.136

Section 5 – Sales Comparison

Snohomish County, WA:

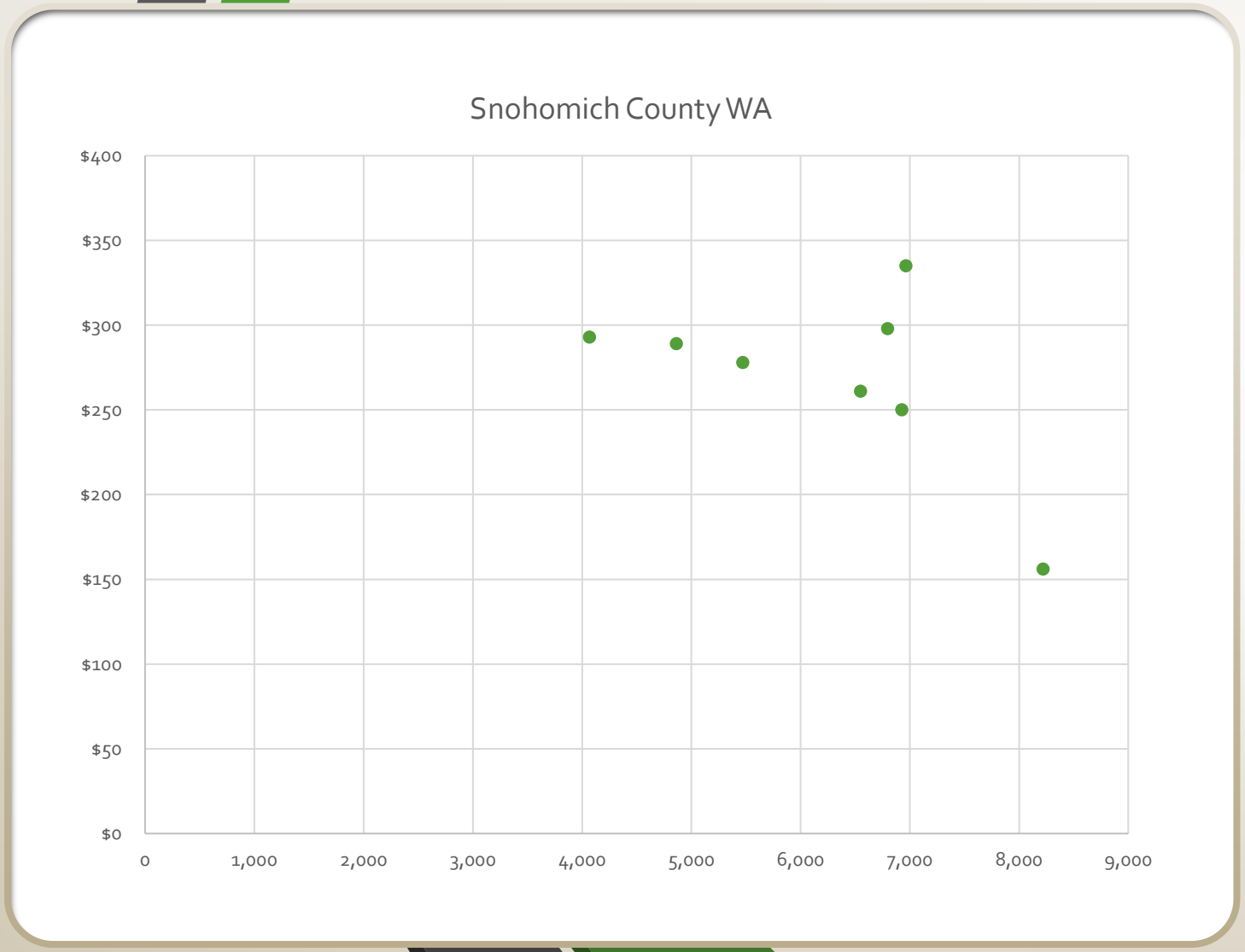
The County Assessor's Office was kind enough to provide eight (8) sales of considerably higher value than the previous example.

These sales are shown on the next slide.



Sale Information

Sq. Ft.	$ per SF
4,065	$293
4,861	$289
5,470	$278
6,548	$261
6,795	$298
6,924	$250
6,963	$335
8,219	$156



Regression Analysis for Sales

Section 5 – Sales Comparison

Sales seem to indicate a slightly downward rate per square foot until around 7,000 to 7,500 square feet and show an upward adjustment.

The sale greater than 8,000 square definitely indicates a substantial reduction.

This larger home would show a reduction by up to 40% ($150 ÷ $250 = 0.40 or 40% residual or a 60% loss).

Snohomish County Sales

Snohomish County Sales

Snohomish County Sales

Snohomish County Sales

Snohomish County Sales

Snohomish County Sales

Snohomish County Sales

Section 5 – Sales Comparison

Problem 5-2:

Your analysis has indicated that sales greater than 6,000 square feet start to fall in the price per square foot. If a sale of 5,500 square feet sold for $310 per square foot and another with 6,290 square feet sold for $278 per square foot, what would be the percentage of reduction, rounded to two places to the right of the decimal?

Section 5 – Sales Comparison

Property 5-2:

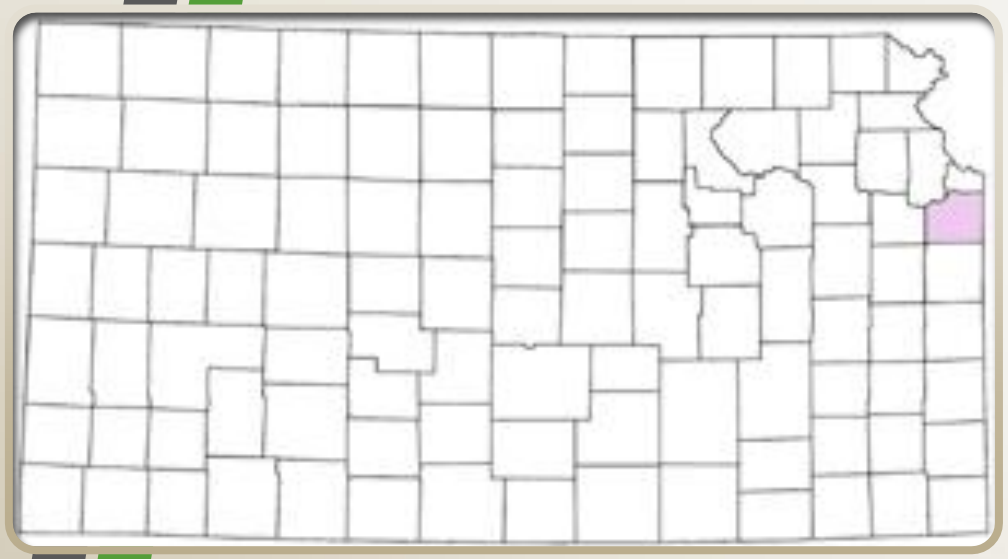
$278 ÷ $310 = 0.90

1.00 – 0.90 = 0.10 or 10%

Or

$310 - $278 = $32

$32 ÷ $310 = 0.10 or 10%

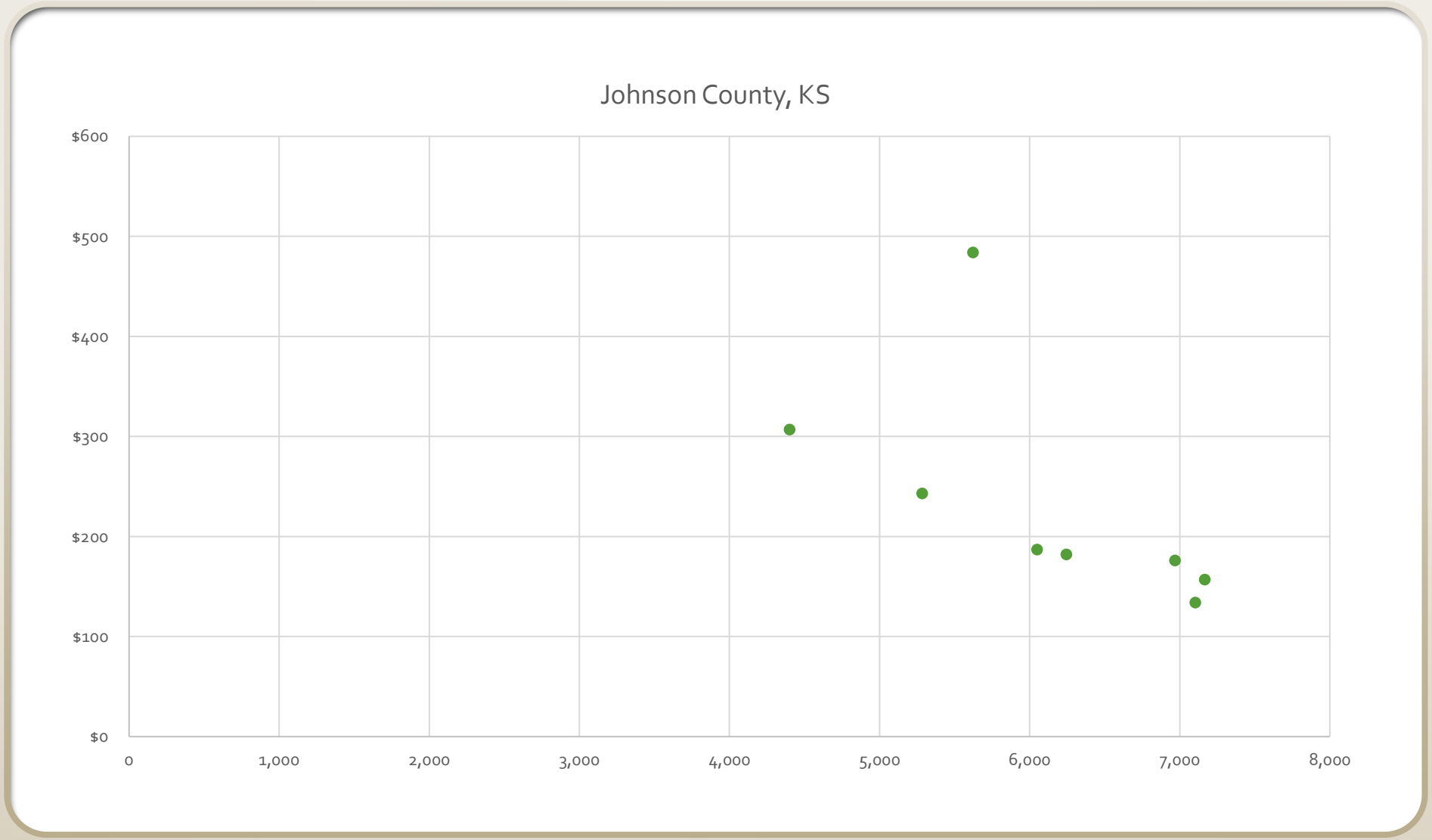


Johnson County, KS

Outside the one sale of 5,622 square feet, the sales display an almost straight-line regression of diminishing marginal utility.

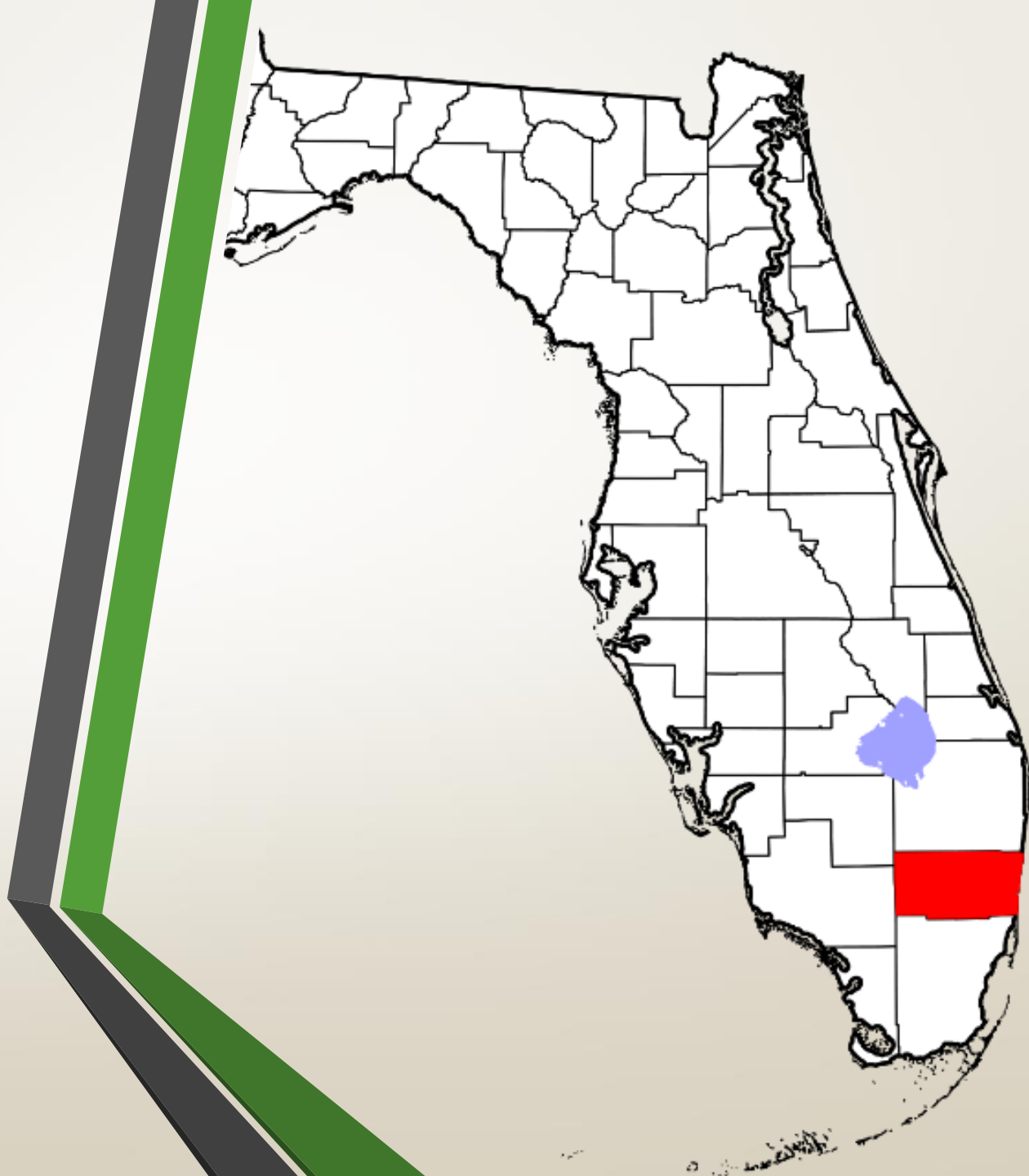
Johnson County, KS

Sq. Ft.	$ per SF
4,400	$307
5,283	$243
5,622	$484
6,049	$187
6,244	$182
6,968	$176
7,103	$134
7,166	$157


Johnson County, KS
$600
$500
$400
$300
$200
$100
$0
0
1,000
2,000
3,000
4,000
5,000
6,000
7,000
8,000

Broward County, FL

There were a large number of high-end sales available for analysis. In this jurisdiction it is not simply a matter of putting all the sales into a graph, but stratification should first be made.



Stratification groups are the same as they use for land and the groups are;

1) Not on the water,

2) Canal,

3) Intercoastal and

4) Ocean.

Inter-coastal is defined as: A waterway that is parallel with the ocean but is a protected area. It is a connector between the ocean and canals.

Broward County, FL

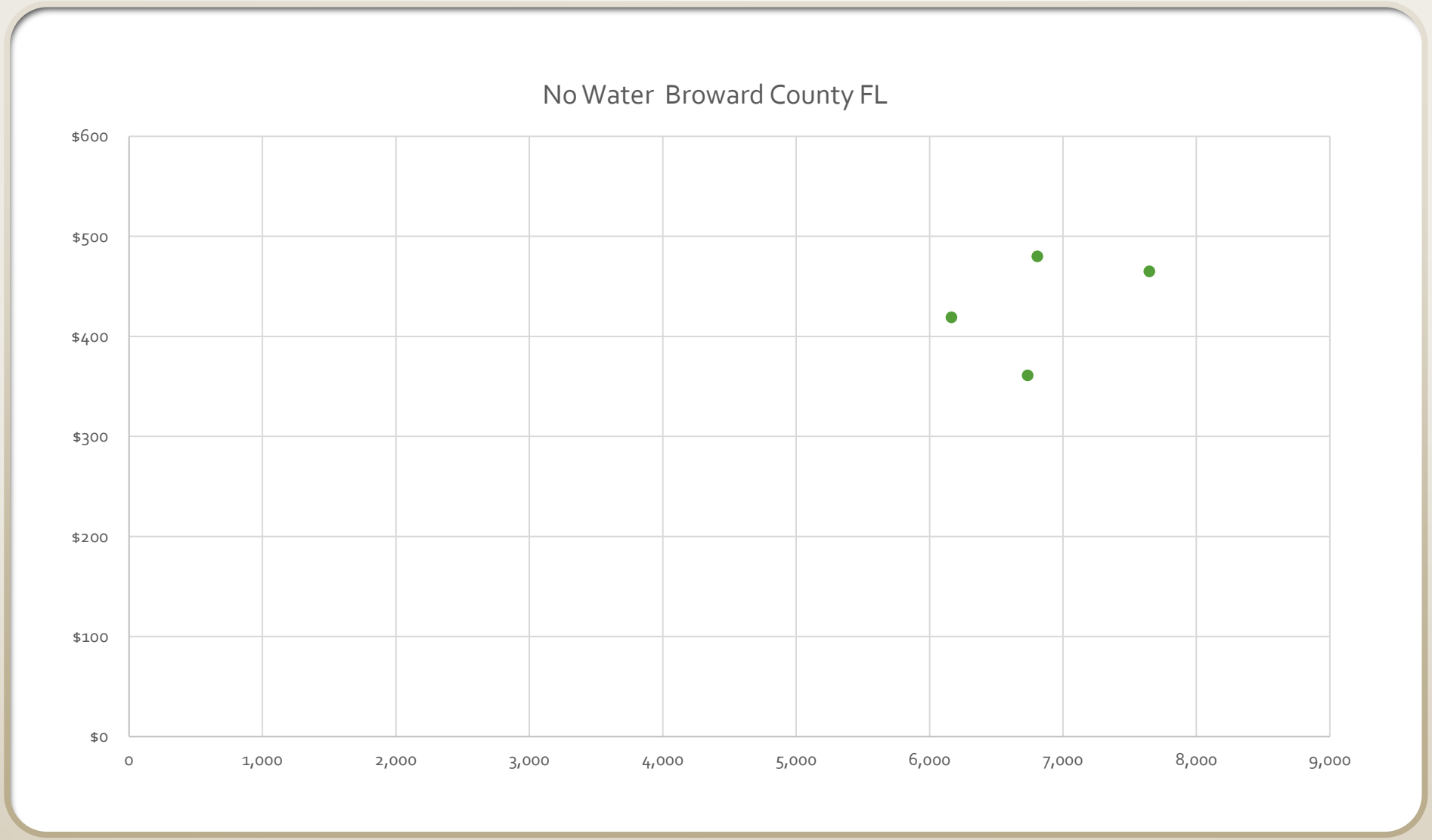
Broward County, FL

There was only one Ocean sale, so the other three stratums are shown below.

As a general conclusion, there does not appear to be a declining rate per square foot with size in any of the stratum.

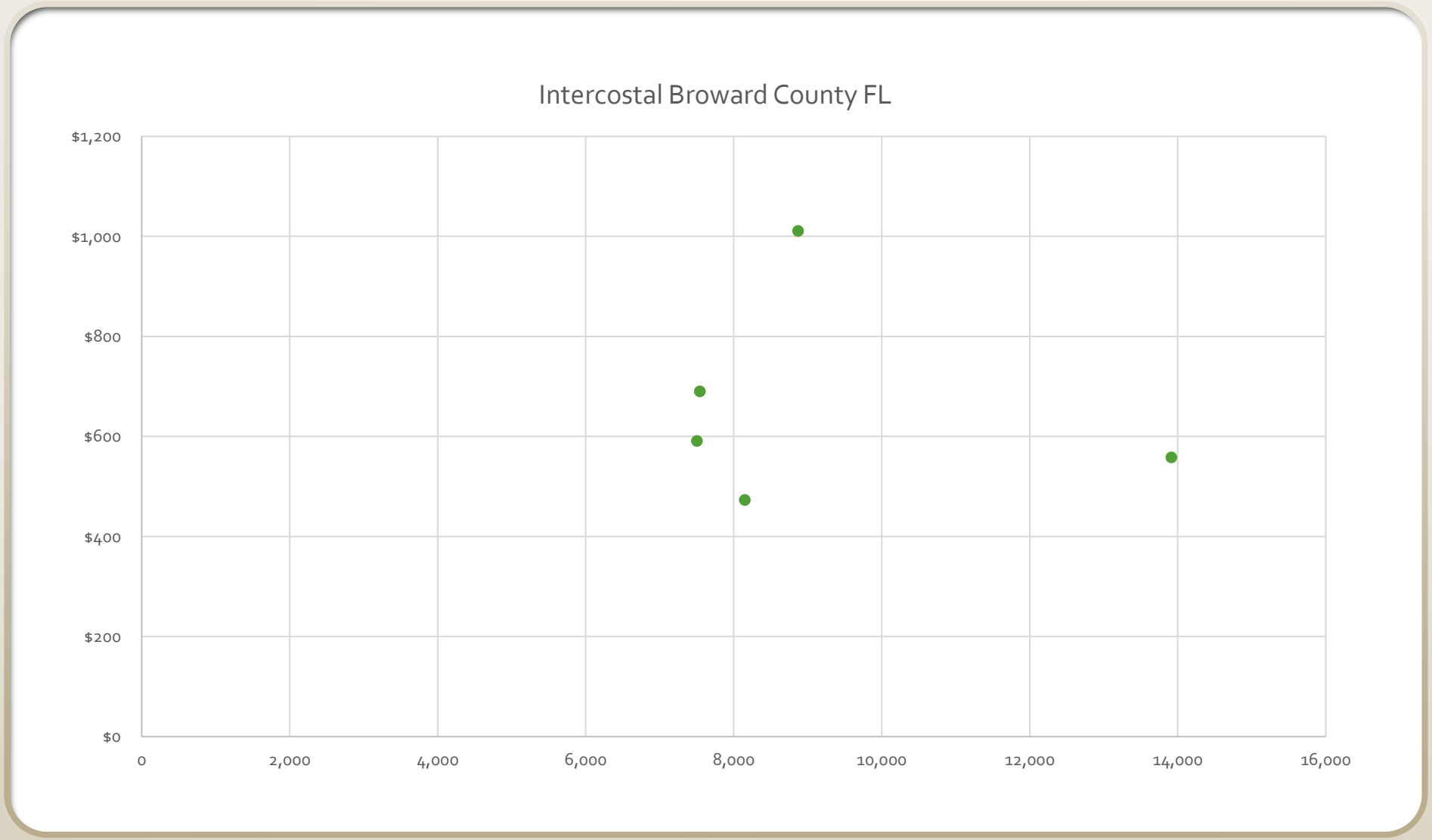
Broward County, FL

Sq. Ft.	$ per SF	Water
6,164	$419	None
6,735	$361	None
6,807	$480	None
7,647	$465	None


No Water Broward County FL
$600
$500
$400
$300
$200
$100
$0
0
1,000
2,000
3,000
4,000
5,000
6,000
7,000
8,000
9,000

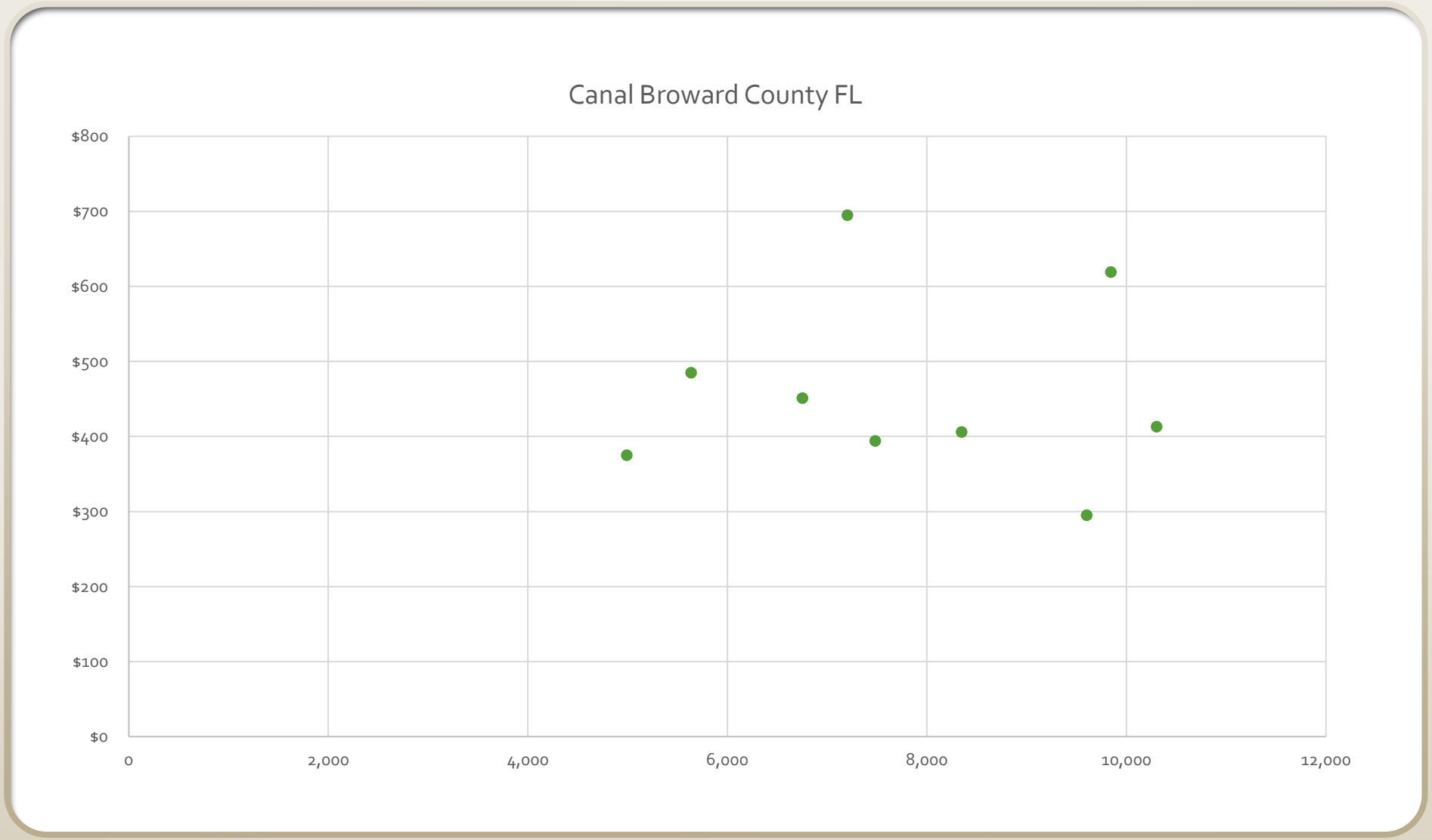
Broward County Intercostal Sales

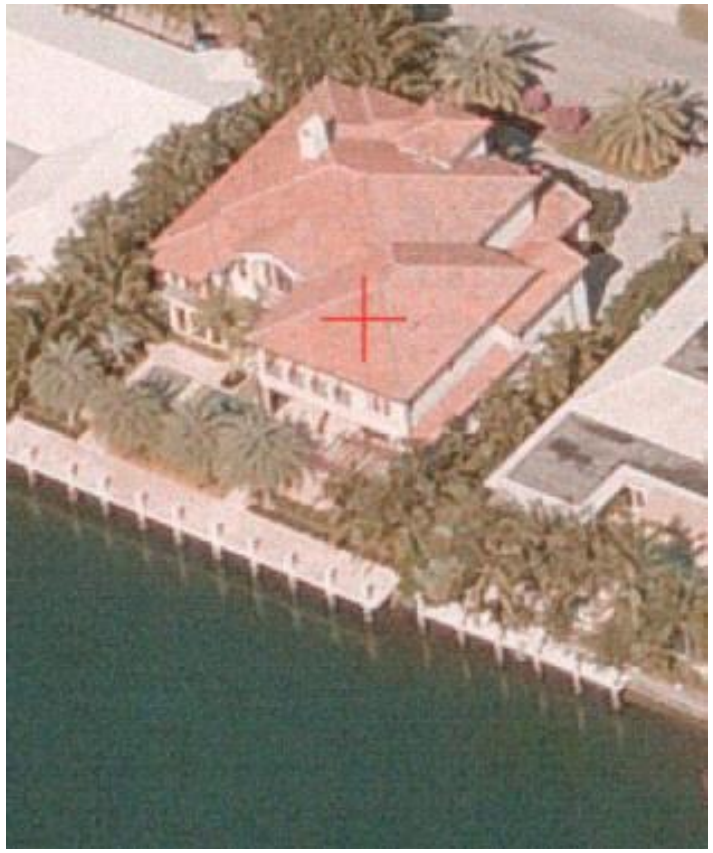
Sq. Ft.	$ per SF	Water
7,502	$591	Intercoastal
7,542	$690	Intercoastal
8,149	$473	Intercoastal
8,870	$1,011	Intercoastal
13,914	$558	Intercoastal


Intercostal Broward County FL
$1,200
$1,000
$800
$600
$400
$200
$0
0
2,000
4,000
6,000
8,000
10,000
12,000
14,000
16,000

Broward County Canal Sales

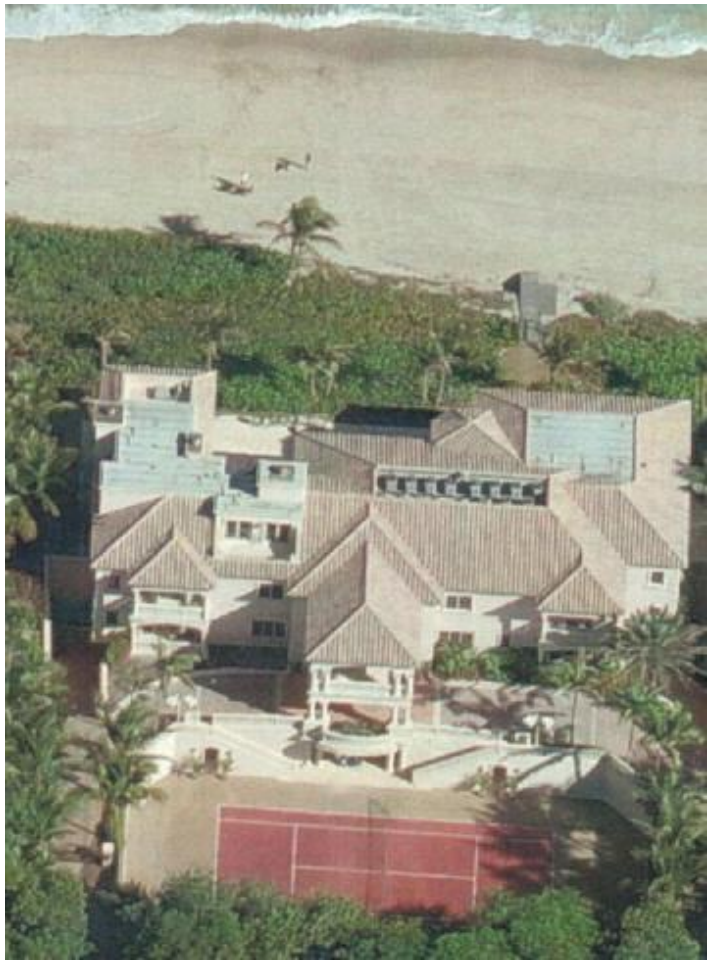
Sq. Ft.	$ per SF	Water
4,991	$375	Canal
5,637	$485	Canal
6,753	$451	Canal
7,203	$695	Canal
7,483	$394	Canal
8,348	$406	Canal
9,602	$295	Canal
9,844	$619	Canal
10,304	$413	Canal

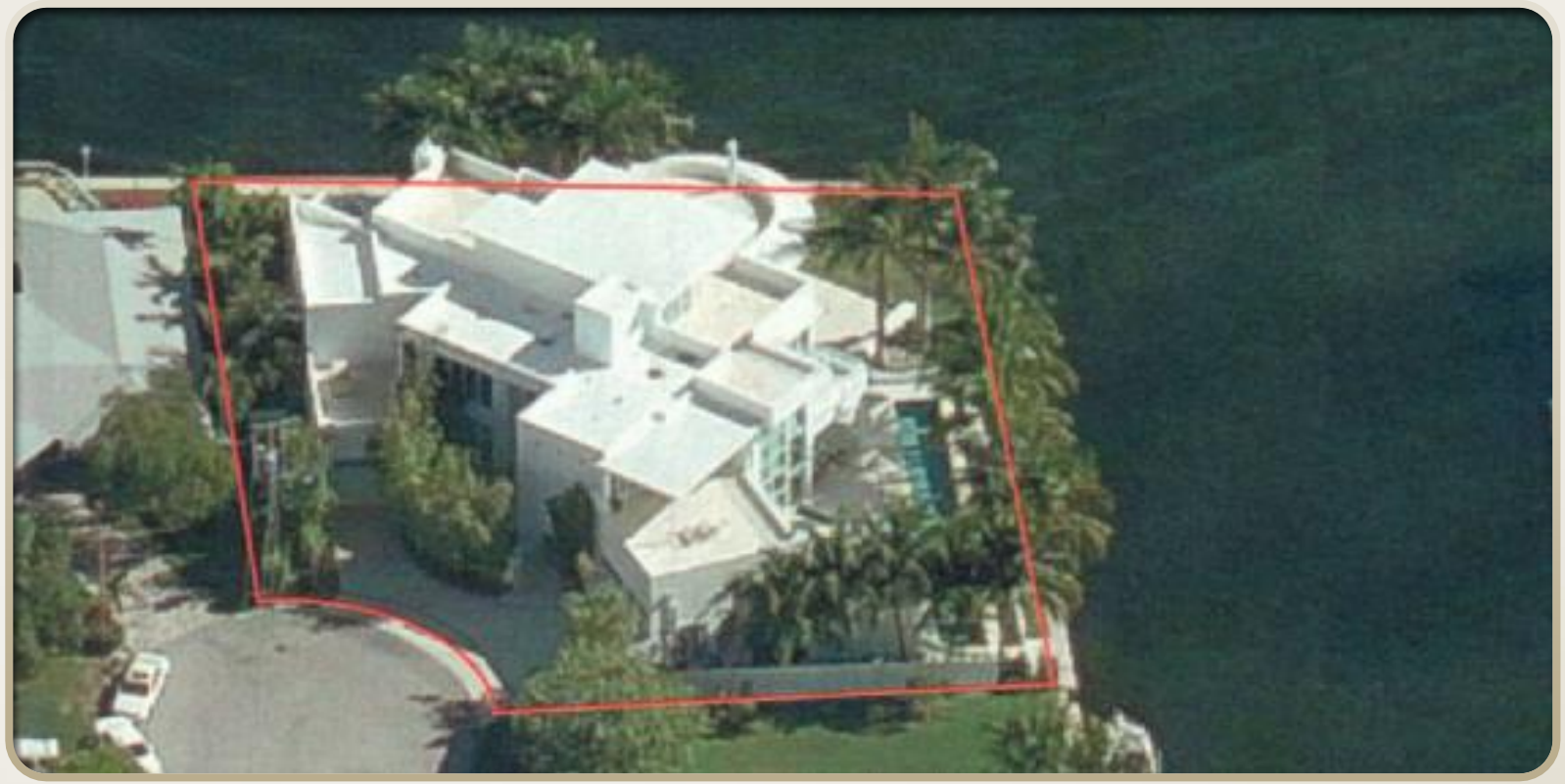

Canal Broward County FL
$800
$700
$600
$500
$400
$300
$200
$100
$0
0
2,000
4,000
6,000
8,000
10,000
12,000



Broward County

Broward County





Broward County

Broward County

Broward County

Cook County

Land values are not current on the files so the original analysis below was using the sale price to determine a mean and median price per square foot.

Cook County

The median is a better reflection as one indicator can make a large difference by using the mean.

This is witnessed for the year of 2006 as one price of $908 per square foot is substantially higher.

Cook County

The sales indicate a rise in the rate per square foot each year until 2008 and it has declined.

Although there are only two sales, the most current sale of $459 is the lowest for all four years of data.

Cook County

Further analysis with newer sales would help establish if this is a trend in the market.

The graph starting on the next slide does appear to indicate a downward rate per square foot for size increasing.

Cook County

Sale Month	Sale Year	Sale Price	Sq. Ft.	$ per Sq. Ft.	Mean	Median
4	2005	$4,180,000	6,565	$637		
4	2005	$3,580,000	6,540	$547		
6	2005	$3,540,000	5,402	$655		
10	2005	$4,000,000	7,309	$547	$597	$592

Cook County

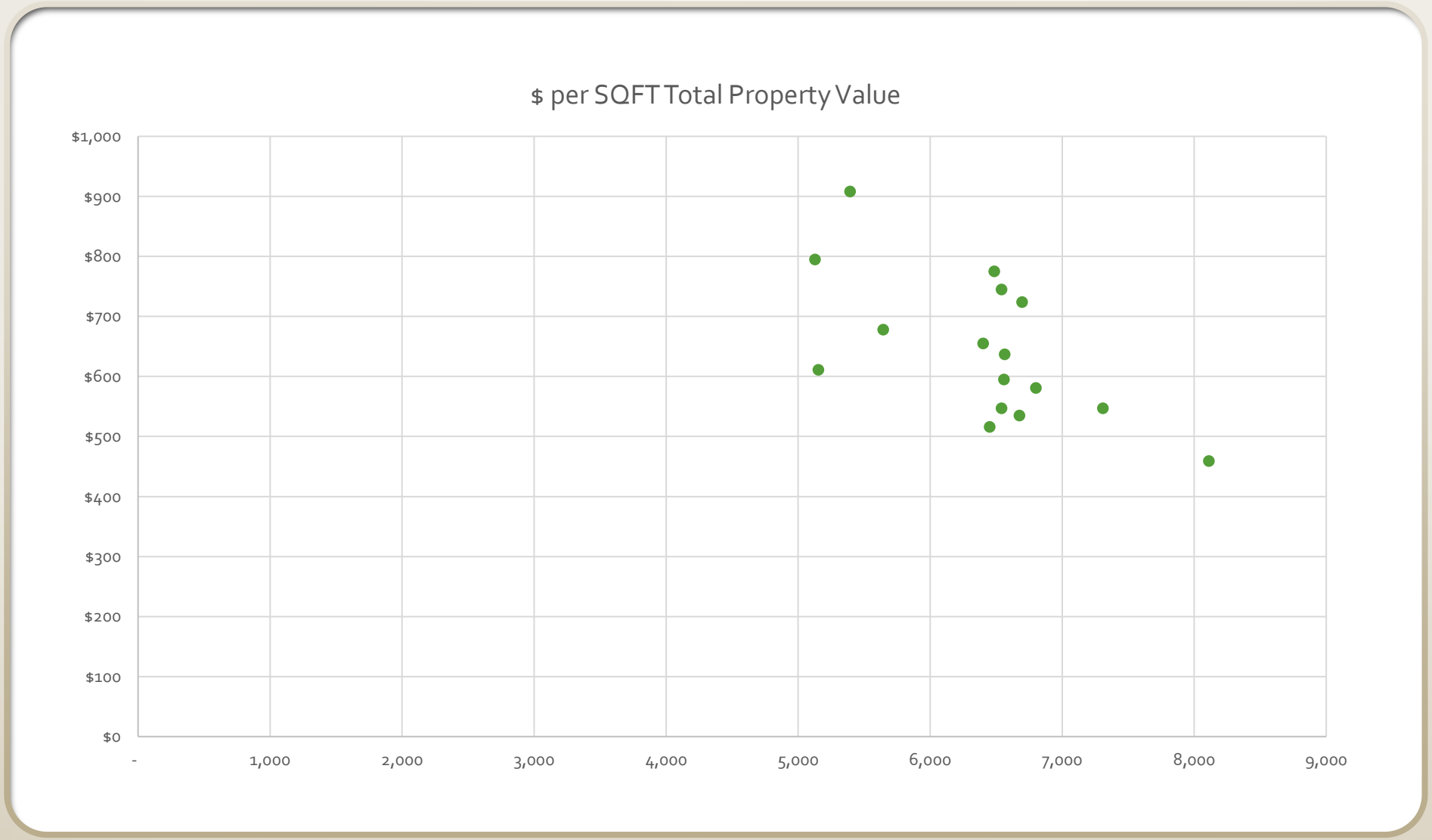
Sale Month	Sale Year	Sale Price	Sq. Ft.	$ per Sq. Ft.	Mean	Median
2	2006	$3,900,000	6,559	$595		
7	2006	$4,895,000	5,393	$908		
7	2006	$3,330,000	6,450	$516		
10	2006	$4,875,000	6,540	$745	$675	$611

Cook County

Sale Month	Sale Year	Sale Price	Sq. Ft.	$ per Sq. Ft.	Mean	Median
1	2007	$3,825,000	5,645	$678		
5	2007	$3,950,000	6,800	$581		
6	2007	$5,028,237	6,486	$775		
8	2007	$4,850,000	6,696	$724		
12	2007	$3,575,000	6,677	$535	$659	$678

Cook County

Sale Month	Sale Year	Sale Price	Sq. Ft.	$ per Sq. Ft.	Mean	Median
2	2008	$4,075,000	5,128	$795		
10	2008	$3,725,000	8,111	$459	$627	$627
				Total	$644	$624


$ per SQFT Total Property Value
$1,000
$900
$800
$700
$600
$500
$400
$300
$200
$100
$0
-
1,000
2,000
3,000
4,000
5,000
6,000
7,000
8,000
9,000

Cook County (Imp. Value/SQFT

The sale price of the parcel prior to building the new home was considered the land value.

A few of the sales were with existing structures and not knowing the teardown costs, the sale price was used as the land value.

Cook County (Imp. Value/SQFT

When only using the improvement value per square foot, there does not seem to be the downward value from year to year nor does there appear to be a decreasing rate per square foot for increasing size.

Cook County Improvement Value Per SQFT

Sale Month	Sale Year	Sale Price	Land Sale	Sq. Ft.	Bldg/ SF	Mean	Med
4	2005	$4,180,000	$1,500,000	6,565	$408		
4	2005	$3,580,000	$712,500	6,540	$438		
6	2005	$3,540,000	$1,300,000	5,402	$415		
10	2005	$4,000,000	$875,000	7,309	$428	$422	$421

Cook County Improvement Value Per SQFT

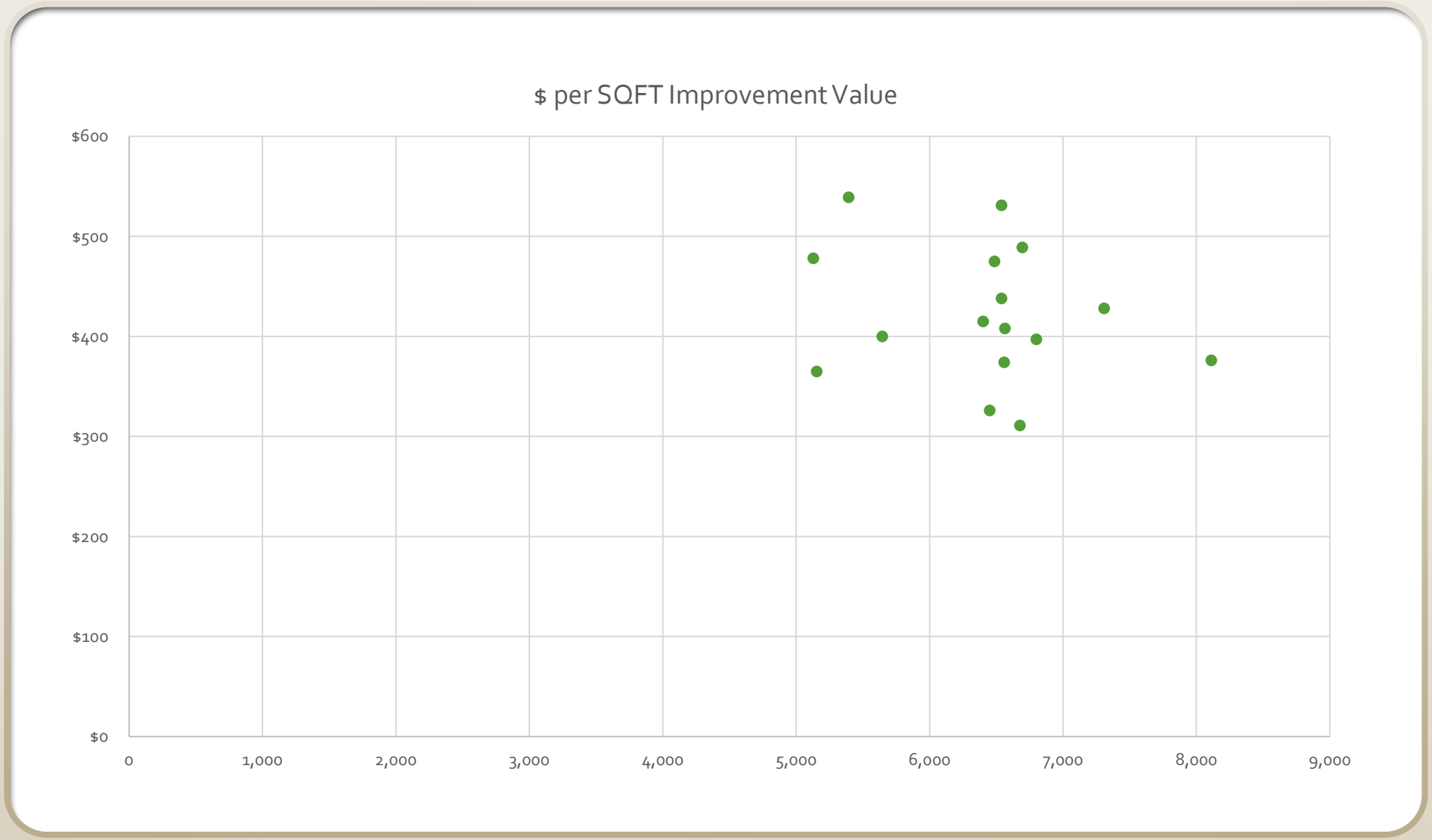
2	2006	$3,900,000	$1,445,000	6,559	$374		
7	2006	$4,895,000	$1,990,000	5,393	$539		
7	2006	$3,330,000	$1,230,000	6,450	$326		
10	2006	$4,875,000	$1,400,000	6,540	$531		
12	2006	$3,150,000	$1,275,000	5,154	$364	$427	$374

Cook County Improvement Value Per SQFT

1	2007	$3,825,000	$1,568,500	5,645	$400		
5	2007	$3,950,000	$1,250,000	6,800	$397		
6	2007	$5,028,237	$1,950,000	6,486	$475		
8	2007	$4,850,000	$1,575,000	6,696	$489		
12	2007	$3,575,000	$1,500,000	6,677	$311	$414	$400

Cook County Improvement Value Per SQFT

2	2008	$4,075,000	$1,625,000	5,128	$478		
10	2008	$3,725,000	$675,000	8,111	$376	$427	$427
					Total	$422	$411


$ per SQFT Improvement Value
$600
$500
$400
$300
$200
$100
$0
0
1,000
2,000
3,000
4,000
5,000
6,000
7,000
8,000
9,000

Cook County (Imp. Value/SQFT

Although the number of square foot a home has is not directly related to the quality of the home, it can be a measuring stick.

The table on the page 61 shows the quality rating and the square foot base for the base number of square foot for costing each quality rating in the Exceptional Homes guide.

Cook County (Imp. Value/SQFT

The overall median square footage is slightly over 6,500 which would indicate a Class I or $147 per square foot.

The overall median is $411 or a required index of 2.80.

Cook County (Imp. Value/SQFT

These sales again indicate the cost within the Exceptional Homes guide is low but also that the homes have components that make them superior to Class I as indicated by size.

05203130090000 04/16/2007

Cook County (Imp. Value/SQFT

05203130080000 04/16/2007

Cook County (Imp. Value/SQFT

05083070010000 04/23/2007

Cook County (Imp. Value/SQFT

Cook County (Imp. Value/SQFT

05203110210000 07/21/2008

Cook County (Imp. Value/SQFT

05291030510000 05/13/2007

Cook County (Imp. Value/SQFT

05183090080000 04/15/2007

Cook County (Imp. Value/SQFT

05173070280000 04/15/2007

Cook County (Imp. Value/SQFT

05071090170000 04/18/2007

Cook County (Imp. Value/SQFT

05204010090000 07/22/2008

Cook County (Imp. Value/SQFT

05214110270000 07/20/2008

Cook County (Imp. Value/SQFT

05081020380000 04/23/2007

Cook County (Imp. Value/SQFT

Cook County (Imp. Value/SQFT

05203110190000 07/21/2008

Cook County (Imp. Value/SQFT

Cook County (Imp. Value/SQFT

Cook County (Imp. Value/SQFT

Sun Valley Idaho

Example of homes in Sun Valley, ID.

Sun Valley Idaho

Sun Valley Idaho

Sun Valley Idaho

Sun Valley Idaho

Section 6 – Income Approach

Section 6 – Income Approach

The income approach is considered the most appropriate when valuing income producing properties.

The underlying economic principle in the income approach is the principle of anticipation, which states that value is created by the expectation of benefits to be derived in the future.

Section 6 – Income Approach

It would be unusual to be able to apply an income approach to a high-end or difficult residential property.

This possibly could exist if the property was in a state of decline and in an older area where there is limited or no demand for this type of property.

Section 6 – Income Approach

If this is the situation, then a review of the highest and best use discussion in Section 3 would be appropriate.

Zoning would also be a factor to consider.

If zoning will not allow or is likely to not allow for the home to become a rental, then the income approach would not be appropriate.

Section 6 – Income Approach

Vacation type rentals

- There are some high-end homes that are used as rentals on a seasonal or short-term basis.
- Some of these are available through leasing or management companies and is available on dates that the owner is not using.
- Normally these are second or vacation homes for the owner.

Section 6 – Income Approach

Vacation type rentals

- Finding rental rates may be difficult in some areas but not in others.
- Trying to apply an income approach to a home in the center of the U.S. could be impossible.
- However, homes available for rent that have views such as mountains and water may be found.
- One avenue is the Internet.

Section 6 – Income Approach

Estimating a value

- The typical income approach for commercial properties would not be appropriate for a rental home. Instead, the application of the Gross Rent Multiplier (GRM) would be used.

Section 6 – Income Approach

Estimating a value

- This method looks at the relationship between income (rent) and sale prices.

- The multiplier is simply a factor and can be used in an income valuation method called the VIF formula where: Value (V) = Income (I) x Factor (F).

Section 6 – Income Approach

Estimating a value

- When using this method, it is important to remember that the subject property and comparable sale properties used to develop the multipliers must be similar or adjusted for any differences.

Section 6 – Income Approach

Estimating a value

- Gross rent multiplier - the GRM, as noted earlier, is used for property that is used for residential purposes.
- Residential GRM will typically be in a range of 80 to 120.
- There is no estimated range for the GRM for high-end residential properties.

Section 6 – Income Approach

Estimating a value

- The preferred method of calculating the GRM for residential property would be to use the actual monthly rent of comparable sale property.

Section 6 – Income Approach

Estimating a value

- The appraiser can also use a property that is being rented and the sale price of a comparable property to extract a GRM.
- Remember that in the sales comparison approach section it was discussed that these are often unique homes so using other unique homes would be reasonable.

Section 6 – Income Approach

Estimating a value

- The formula to calculate the GRM is:

  Sale Price ÷ Gross Monthly Rent.

Section 6 – Income Approach

Estimating a value

- When using the GRM to calculate a market value for the subject property always use the market rent in the subject property's neighborhood.

- The formula using the GRM to find market value is: GRM x Monthly Market Rent.

Section 6 – Income Approach

Estimating a value

- The GRM listed is really the GIM. This can be converted to a GRM by multiplying by 12.
- That would indicate a GRM of 160 which is substantially higher than typical single-family residential properties.

Section 7 – Non-Value Analysis

Section 7 – Non-Value Analysis

Non-value analysis would consist of various techniques to help analysis demand and market activity for the high-end residential properties.

Section 7 – Non-Value Analysis

Some of the methods that would help the appraiser understand the contrasts between the normal residential and the high-end residential property would be:

Section 7 – Non-Value Analysis

Time on the market. A study to compare between the two types of homes mentioned above would help analyze if the market is more limited for the high-end homes.

Section 7 – Non-Value Analysis

Sale price versus asking price. This analysis could be helpful so when a high-end property is placed on the market, the appraiser may be able to estimate the upper end of value.

For example: A residence is listed for sale at $4,300.000.

Section 7 – Non-Value Analysis

Your previous analysis has indicated that homes in your jurisdiction that sell for more than $2,000,000 generally sell for 92% of asking price. Then an estimate of value could be:

$4,300,000 x 0.92 = $3,956,000.

This should be an additional tool and check on other value indications and not the sole value choice.

Section 8 – Articles of Interest

Section 8 – Articles of Interest

See Student Reference Manual

Section 9 – Wrap Up & Questions

Go to the market.

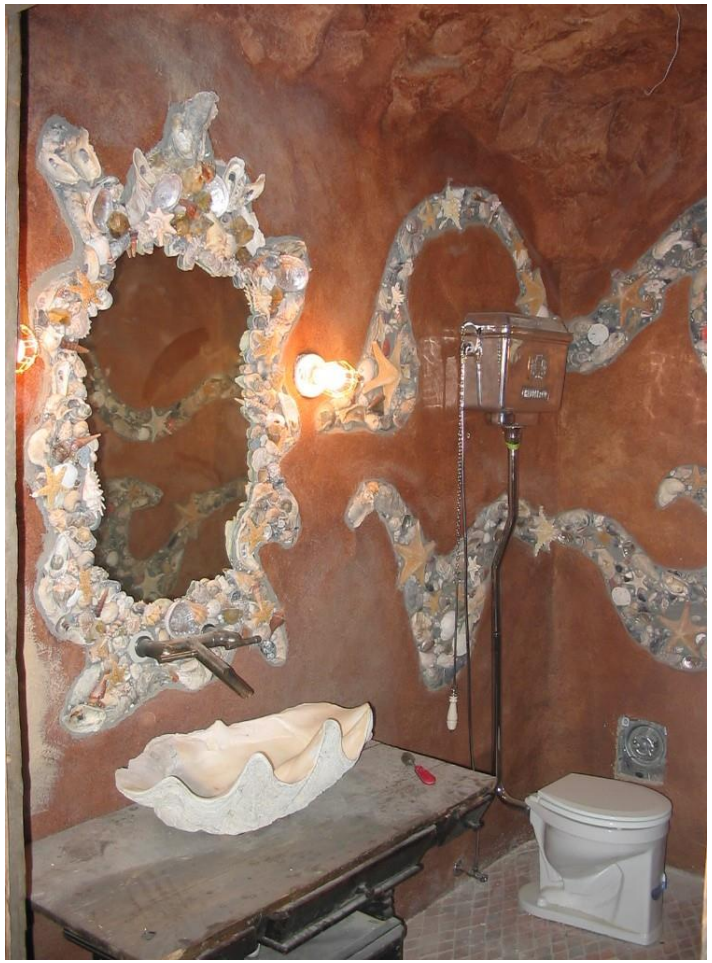
Expand your market area.

Document and organize your work for preparation of appeals.

Now for some high-end weird and unusual ones.

Dead branches in the main living area

Shells on the bathroom walls



Not so private bath

Old, old fashioned sink

Even less private bath

Living room

Living room

Doors are all different

The roof has waves in it

Outside view

Now for your home

Typical County Assessor Home


HAVE ANY QUESTIONS??


Thank
you!