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Seminar Introduction

This seminar is based on the Appraisal Practices Board's (APB) *Valuation Advisory #4: Identifying Comparable Properties - Revised*.

The Alliance for Valuation Education wishes to not only recognize but also thank the APB for all of the hard work that went into this Valuation Advisory.

The analysis of real estate transactions is a critical component in the valuation of real property. Appraisal methodology and techniques are based on the comparison of data. Market analysis, highest and best use analysis, and the three approaches to value—the sales comparison approach, the cost approach, and the income approach—are developed based on the comparison of data. The proper recognition and identification of what is a comparable, why it has been selected as a comparable, and how the comparable is used is critical to the appraisal process.

Appraisers use comparable property information everyday. Often they are used without appraisers consciously thinking of the reasons behind their selection and use.

The sales comparison approach indicates a value based on the comparison of sales which have been determined to offer the most similarity to the subject property. Differences between the subject and the selected comparables are identified. Comparable sales are used to support any needed adjustments to the comparables. After adjustment, the comparables are reconciled to a final value conclusion.

The cost approach is based on the development of an indicated land value for the subject using a comparison method, and the development of replacement or reproduction costs that are supported through a comparison process. If there is depreciation, the loss in value is supported through the use of comparables.

The income approach is developed based on an analysis of income and expenses of the subject compared to comparable data from the marketplace. The gross rent multipliers and capitalization rates used to convert the rent and income into a value indication are also developed through the use of comparables.

The entire appraisal process is dependent on the comparison of data.

Improving an appraiser's ability to effectively analyze and select relevant comparable properties will result in better supported, more believable and persuasive appraisals and appraisal reviews. Additionally, an enhanced understanding of the process of selecting and analyzing properties that possess characteristics that may be useful for comparative purposes enables an appraiser to more clearly explain and support the analysis in an appraisal report. Lastly, users of appraisal services will be able to better assess the credibility of an appraiser's opinions.

This seminar is designed to enhance the understanding and use of comparable properties. It does not address the use of comparables in every valuation situation that may exist. Many situations are beyond the scope of this presentation. If time permits the instructor will try to answer questions about specific methodology and techniques. If questions are not able to be answered, students are encouraged to pursue an appropriate course covering that aspect of valuation.

INBREEDING

Inbreeding refers to the potential inherent error that may result if an appraiser relies on too small of a data set to develop adjustments. Inaccuracies in any of the transaction- and property-related information that is collected and analyzed will inbreed errors into the developed adjustments and ultimately will affect the reliability of a property's indicated value. Applying careful scrutiny of the data and increasing the number of comparables that are used for developing adjustments will help decrease problems associated with inbreeding.

TRANSACTIONAL CHARACTERISTICS

A transaction (the transfer of property) is composed of transactional and property characteristics. Transactional characteristics are components appraisers consider in determining if and how a sale price measures against the market value standard of value. These characteristics influence the price paid for the property.

SWOT ANALYSIS

This is the analysis of strengths, weaknesses, opportunities, and threats (SWOT). Appraisers look at data from their own perspective but also examine their use of data from the standpoint of how it will be perceived by a client or another appraiser. SWOT analysis helps appraisers appreciate the reliability of the data, and recognize inherent weaknesses in the use of the data. Additionally, it helps appraisers develop a proactive understanding of how an individual would perceive potential problems with the data (opportunities) and potential gambits that may prove their data wrong (threats). SWOT analysis is useful in helping to decide whether to use data and also helps with the reconciliation process. This will be explained in more detail within various sections of this seminar.

LOCATIONAL CHARACTERISTICS

Locational characteristics pertain to how a property's situation within one area relates or provides linkage with another area and may be qualified as either general or specific. Although location attributes are considered a "physical characteristic," appraisers isolate them separately. For the purposes of consistency and clarity they are identified as an independent characteristic throughout this seminar.

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