

VALUATION/APPRAISAL

What's the Goal of the CMA?

1. To firmly establish your knowledge of the market in the prospect's mind.
2. To lay the groundwork for offering a realistic Purchase Price for the Property.
3. It is NOT an APPRAISAL!!



VALUATION/APPRAISAL

Primary Approaches to Valuation...

- Cost Approach
- Income Approach
- Sales Comparison



VALUATION/APPRAISAL

Cost Approach...

- Replacement vs Reproduction
- Calculating for Depreciation



NEW

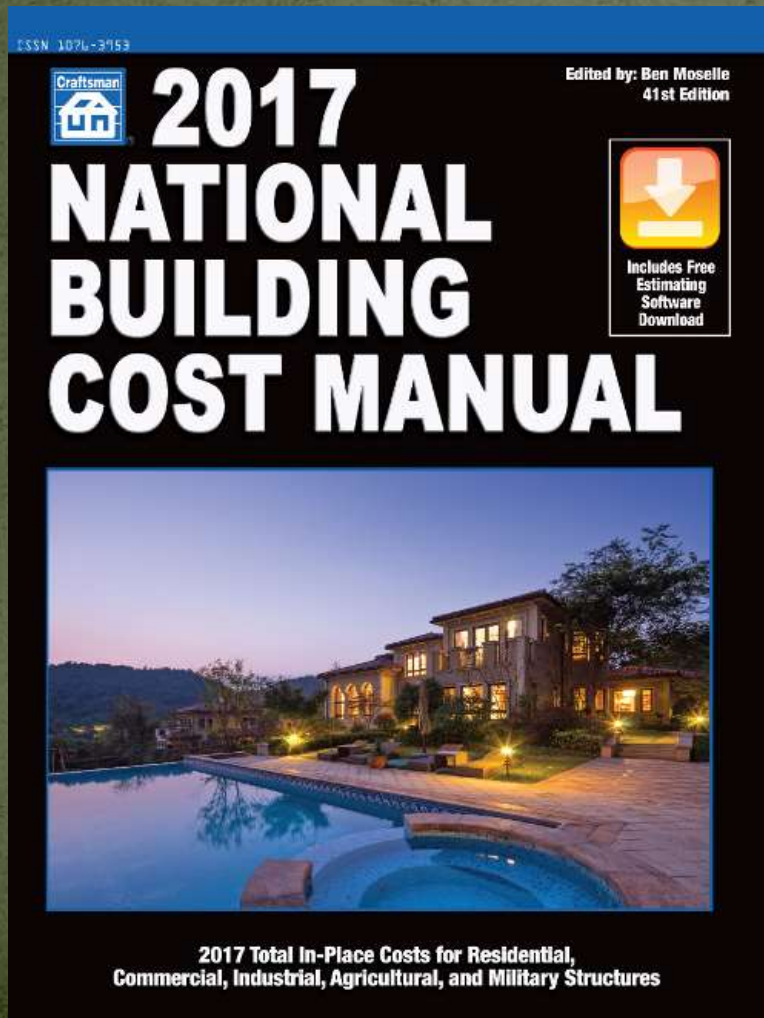


OLD



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Cost Approach...



- Determine cost per square foot to rebuild
- Factor for cost of the land
- Factor for functional and physical depreciation of improvements
- Subtract Accrued Depreciation
(Effective Age ÷ Remaining Economic Life)



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Income Approach...

- Gross Rent Multiplier
- Capitalization Rate



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Income Approach...

- Gross Rent Multiplier

$$\text{GRM} = \frac{\text{Purchase Price}}{\text{Gross Income}}$$



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Income Approach...

- Gross Rent Multiplier #1

3 Bed – 2 Bath Home @ \$1,800/mo

$$12.27 = \frac{\$265,000.00}{\$21,600}$$



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Income Approach...

- Gross Rent Multiplier #2

4 Bed – 3 Bath Home @ \$2,300/mo

$$11.4 = \frac{\$315,000}{\$27,600}$$



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Income Approach...

- Gross Rent Multiplier #3

2 Bed – 1 Bath Home @ \$1,200/mo

$$13.54 = \frac{\$195,000}{\$14,400}$$



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Income Approach...

- Gross Rent Multiplier for Subject
2 Bed – 2 Bath Home est. \$1,400/mo?

$$12.4 = \frac{\$208,320}{\$16,800}$$



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Income Approach...

- Cap Rate

$$\text{Cap Rate} = \frac{\text{NOI}}{\text{Sales Price}}$$



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Sample Net Operating Income Sheet

INCOME

Total Rental Income	\$24,000
Less Vacancy	<u>\$(2,000)</u>
Gross Operating Income:	\$22,000

EXPENSES

Property Taxes	\$2,700
Insurance	\$1,200
Management (10%)	\$2,400
Repairs/Maintenance	\$1,500
Utilities	paid by tenant
Accounting/Legal	\$0.00
HOA Fees	<u>\$2,400</u>
Total Operating Expenses	(\$10,200)
Gross Operating Income	<u>\$22,000</u>
Net Operating Income:	\$11,800



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Income Approach...

- Cap Rate

$$3.8 = \frac{11,800}{\$310,000}$$



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Income Approach...

- Cap Rate

$$6.5 = \frac{20,150}{\$310,000}$$



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Income Approach...

- Cap Rate for 2 bed, 1 bath condo at Sidehill purchased in 2012. Rents for \$1325/mo

$$9.25 = \frac{\$11,480}{\$124,000}$$



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Sales Comparison Approach...

- Most common approach
- Primary & Secondary Data
- A Measurement of Buyer Preferences



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Sales Comparison Approach...

Characteristics of Appropriate Comps:

- ❖ Architectural Style
- ❖ Size
- ❖ Age
- ❖ Utility
- ❖ Location
- ❖ Condition



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What to look for on the inside...

- Number of rooms, type of flooring
- Number of baths, type of flooring, surrounds and fixtures
- Condition of the kitchen, cabinets, appliances
- HVAC, age, condition, fuel type
- Electrical System, amperage, age, type
- Plumbing, leaks, material used for supply and waste



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What to look for on the outside...

- Type and condition of roof
- Condition of trim, soffit, fascia, gutters, downspouts
- Type/Condition of siding
- Types of windows; are screens present
- Type/Condition of porches, garages, carports
- Driveway, landscaping, walkways
- Condition of surrounding properties



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What about the Neighborhood?

- What is the average condition of homes in the neighborhood
- Zoning mix
- Public utilities available...
- Style of subject typical of neighborhood?
- Any Apparent easements/encroachments
- HOA/Gated Community/Deed Restrictions
- Private or public street access?



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Sales Comparison Approach...

Elements Critical to Accurate Analysis:

- ❖ Date of the offer
- ❖ Date of the closing
- ❖ Sale Price
- ❖ Financing concessions?
- ❖ Arms Length?
- ❖ Property Condition
- ❖ Location Desirability
- ❖ Construction Quality
- ❖ Basement & Finish
- ❖ Floor Plan Utility
- ❖ Heating/Cooling
- ❖ Above Grade Rooms
- ❖ Garage Size/Spaces
- ❖ Special Features



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Sales Comparison Approach...

Making Adjustments Like Appraisers

- ❖ Establish Baseline Data for neighborhood
- ❖ Rule of Thirds: Land – Structure – Features/Finish
- ❖ Must isolate for the contribution of value
- ❖ Good comps – only need a couple
- ❖ Poor Comps – need more data
- ❖ Use comps both bigger and smaller to normalize
- ❖ Compare similar styles - e.g. ranches to ranches



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Sales Comparison Approach...

MLS Number	IRES MLS #: 751683	IRES MLS #: 764293	IRES MLS #: 759045
			
Status	Sold	Sold	Sold
Type	Attached Dwelling	Attached Dwelling	Attached Dwelling
Style	1 Story/Ranch	1 Story/Ranch	1 Story/Ranch
Address	1601 W Swallow Rd 7F	1601 W Swallow Rd C-6C	1601 W Swallow Rd 2-B
Subdivision	Gables at Silverplume	Gables At Silverplume	Gables at Silverplume
Locale	Fort Collins	Fort Collins	Fort Collins
Area	9/10	9/10	9/10
County	Larimer	Larimer	Larimer
Total SqFt	852 (\$194/SF)	852 (\$200/SF)	852 (\$188/SF)
Total Finished SqFt	852 (\$194/SF)	852 (\$200/SF)	852 (\$188/SF)
Total Fin w/o Basement	852 (\$194/SF)	852 (\$200/SF)	852 (\$188/SF)
Main Floor SqFt	852	852	852
Basement SqFt			
Bsmt/Foundation	No Basement	No Basement	No Basement
Year Built	1985	1984	1983
Bedrooms	2	2	2
Baths	2	2	2
Family Room	Yes	No	Yes
Study	No	No	No
Fireplace	Living Room Fireplace	Living Room Fireplace	
Heating	Baseboard Heat	Baseboard Heat	Baseboard Heat
Garage#/Type	1/D	1/D	1/D
Approx. Acres			
Lot SqFt			
List Price	\$165,000	\$165,000	\$160,000
Sold Price	\$165,000	\$170,000	\$160,000
Sold Terms	CONV FIX	CASH	CONV FIX



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What's the goal of your data?

Recent
SOLDS

TRULIA
ZILLOW
RPR
RVM
RCOM

Price

APPRECIATION
Macro/Micro

Price per
square foot



Competitive Market Analysis							
Adjustments		ITEM	SUBJECT	COMPARABLE #1		COMPARABLE #2	
		Address	123 Main Street	321 Gem Way		456 Oak Place	
		Proximity to Subject		1 block		2 blocks	
		Sales Price			\$300,000		\$285,000
		Price/Gross Liv Area	\$	\$136.36		\$146.15	
		VALUE ADJUSTMENTS	DESCRIPTION	DESCRIPTION	+ (-) \$ Adjustment*	DESCRIPTION	+ (-) \$ Adjustment*
		Sales or Financial Concessions		Conventional/Sel-0		Conventional/Sel-0	
		Date of Sale		u/c Closed		u/c closed	
		Location, Neighborhood	avg neighborhood	Avg Neighborhood		avg neighborhood	
		Site, Size & Location	7.500 sf lot/avg	7500 sf lot/ average		7500 sf lot/average	
		View	Interior/avg views	interior/avg views		interior/avg views	
		Design & Appeal	2 story/avg	2 story/avg		2 story/avg	
		Quality of Construction	avg	avg		Good/all brick	
		Age	1990	1990		1988	
		Condition	avg	Good/New Carpet, paint		good	
		Above Grade	Total / Bedrms / Baths	Total / Bedrms / Baths		Total / Bedrms / Baths	
		Room Count	8/4/FFH	8/4/FFH		8/4/FFH	
Enter factor here →	50	Gross Living Area Sq.Ft.	2200	2200	0	1950	
Enter factor here →	10	Basement Sq.Ft.	1100	1100	0	900	
Enter factor here →	15	Basement Finished Sq.Ft.	550	550	0	720	
		Basement Extras	one bedroom/F bth	one bedroom, F Bth		one bdrm, F Bth	
		Functional Utility	avg	avg		avg	
		Heating / Cooling	GFA/AC	GFA/AC		GFA/noAC	
		Energy Efficient Items	dbl pane windows	Dbl Pane Windows		Dbl Pane Windows	
		Garage / Carport	2 car gar	3 car gar		3 car gar	
		Fireplaces	1 fireplace	2 fireplaces		1 fireplace	
		Decks,Patio's,Porch's Landscaping	deck, porch, avg lnds	Deck, Porch, Avg Lnds		Large cvrd deck, avg lnds	
		Fence, SP, Pools, Etc.	fence, sprklrs	fence, sprklrs		Fence sprklrs	
		Remodeling, Updating, Extras	remodeled bath 5k	Rmdl Bath, 5 k		no remodeling	
		Net Adj. (total)		[] + [] -		[] + [] -	
		Adjusted Sales Price					
		of Comparable					
		Sales History and any other important data					

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