

The Appraisal of Real Estate

14th Edition



tions from

Valuation

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Demand can be estimated using demographic data (population and vital statistics) and economic data (employment and income statistics) for the market area. The Bureau of the Census (Department of Commerce) and Bureau of Labor Statistics compile and publish statistical data, which is often also available in electronic form. Other private and public sources provide historical data and projections based on small area populations. Appraisers who rely on projections prepared by market research firms should have a clear understanding of the methodology used to make the projection. Otherwise the data may represent little more than a blind data set. To test the reasonableness of small area projections, comparisons should be made between the demographic data and the supply data collected in the specified market. Supply data may include building permits and market sales or absorption rates kept by public agencies such as building inspection, city planning, and public works departments.

Personal observation is also useful in estimating local demand. For example, the planned closing of an army base should be considered in analyzing the future demand for adjacent commercial properties such as dry cleaners, motels, bars, and restaurants. An appraiser who has observed development near highway interchanges will be able to anticipate that a proposed freeway interchange will generate future demand for shops, service stations, and motels catering to the needs of motorists and tourists.

Selecting Comparable Data and Establishing Comparability

Descriptions and classifications of the characteristics and components of comparable properties are assembled in land and improvement analyses. The appraiser selects data from these analyses and analyzes it in the sales comparison, cost, and income capitalization approaches. The data used for comparison in the three approaches should come from properties that are similar to the property being appraised. A good comparable sale is a competitive alternative—i.e., a property that the buyer of the subject property would also consider. The selection of comparables is directed to some extent by the availability of data. Investigation of an active market usually reveals an adequate and representative number of transactions within a restricted area and time period.

An appraiser gathers broad information about a market from its pattern of sales. Important market characteristics can be revealed by significant factors such as

- number of sales
- period of time covered by the sales
- availability of property for sale
- rate of absorption
- rate of turnover—i.e., volume of sales and level of activity
- characteristics and motivations of buyers and sellers
- terms and conditions of sale
- use of property before and after its sale

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ies, and an appraiser may find it necessary to place less confidence on a given comparable. Nevertheless, an appraiser may want to consider this comparable for its evidence of, and effect on, the marketplace.

Appraisers have a special responsibility to scrutinize the comparability of all data used in a valuation assignment. They must fully understand the concept of comparability and should avoid comparing properties with different highest and best uses, limiting their search for comparables, or selecting inappropriate factors for comparison.

Verification

A primary purpose of verifying a sale of real property is to make sure that the sale occurred under conditions that meet the definition of value used in the appraisal. The verification process also provides the appraiser with an opportunity to obtain accurate information about the property and to better understand the attitudes and motivations of the buyer and seller. An appraiser asks a few essential questions when verifying data:

- Is the data correct?
- Is the data complete?
- Was the sale or rental an arm's-length transaction?
- Were there any contingencies?
- Were any concessions involved?
- Does the data conform to relevant standards or regulatory requirements?
- Did any special or unusual conditions affect the sale or rental?

The Uniform Standards of Professional Appraisal Practice require that appraisers "collect, verify, and analyze all information necessary to achieve credible assignment results."⁵ Appraisers investigate how much verification of data will be necessary for a specific assignment in the determination of scope of work. Many users of appraisal services permit the use of secondary data that has not been directly verified, whereas others require confirmation with more than one party to the transaction and stipulate who must perform the verification task. For example, an appraisal of a single-unit home for mortgage lending purposes is likely to require more verification of specific property data than a mass appraisal assignment involving the statistical analysis of a large database of property information purchased from a data vendor. Likewise, the Uniform Appraisal Standards for Federal Land Acquisitions require an appraiser to talk directly to a party to the transaction to verify data used in an appraisal assignment subject to the Yellow Book standards, which is a higher level of verification than is usually necessary in the aforementioned appraisal for mortgage lending purposes.

In addition to the scope of work of the assignment, the reliability of the original data source also has an effect on the scope of data verification.

5. Standards Rule 1-4 of *Uniform Standards of Professional Appraisal Practice*, 2012-2013 ed. (Washington, D.C.: The Appraisal Foundation, 2012), U-19.