

**APP 531**  
**Estimating the Value**  
**Of Real Property**



**...An Appraisal Course**

**License #564000657**  
**Kim Daugherty**

## Instructions to Complete This Course

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**Step One:** Look through the entire course to get a feel for the format (quizzes, notes and answer key)

**Step Two:** Answer/complete each quiz. After each quiz correct your answers, then go on to the next quiz and/or notes. Take your time and digest the material.

**Step Three:** Don't hesitate to use reference resources to expand your knowledge and understanding of any of the issues.

**Step Four:** Sign-up for and take the test  
(Call your local association or branch where you purchased your home study)

## Outline and Timeline

- Part One: Open Exercise 20 minutes
- Part Two: 53 Specific Questions/Issues for Review
  - #1 thru #27 20 minutes
  - #28 thru #53 20 minutes
- Part Three: The Residential Appraisal Report
  - Form 1004 (Pages 1-2) 15 minutes
  - Form 1004 (pages 3-4) 10 minutes
  - Form 1004 (pages 5-6) 10 minutes
  - Form 1004 MC 15 minutes
- Part Four: Checklists to Use 25 minutes
- Part Five: Closing Reminders 15 minutes
- Total 150 minutes

## **3 Reasons Why This Topic Is Soooo Important!**

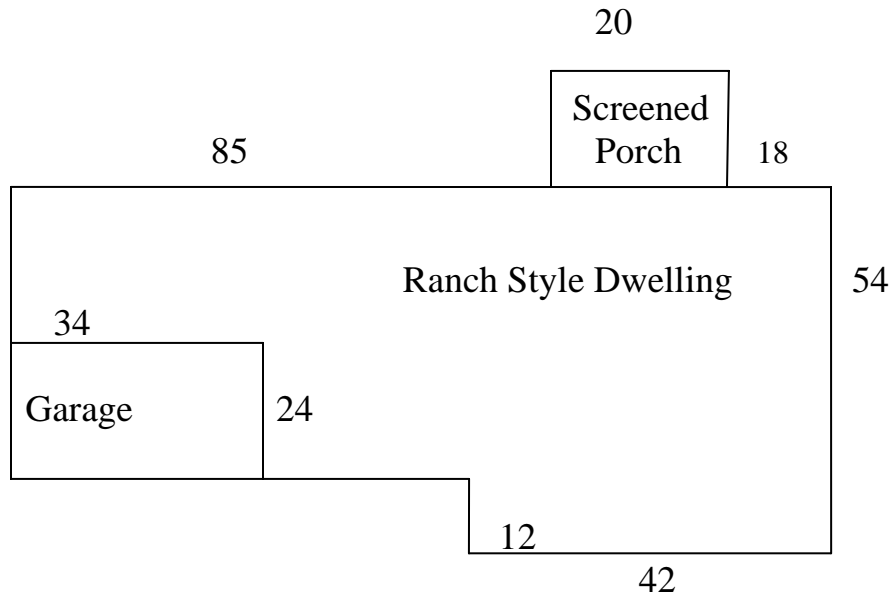
#1: Most home buyers finance the purchase of their home...and the lender IS going to have it appraised.

#2: To professionally serve consumers, we as licensees need a working understanding of appraisers, appraising and the appraisal process.

#3: Due to current market conditions this topic, and the realities surrounding it, are in a state of transition. A review of the basics and current practices seems appropriate.

# Opening Exercise...Part One

#1: Please figure the square footage of the following diagram:



True/False

- \_\_\_\_\_2. To obtain the gross livable area (square footage) of a property you should normally use interior measurements because square footage does not include walls and other non-livable space.
- \_\_\_\_\_3. The size of a house normally has some impact on how much it is worth.
- \_\_\_\_\_4. Adding a swimming pool to a \$200,000 home in your area is an example of an increasing return.
- \_\_\_\_\_5. The best indication of value on a newly built home is how much it cost to build plus the cost of the land.
- \_\_\_\_\_6. A homeowner could decrease the effective age of a property by superior maintenance and remodeling of a property.

- \_\_\_\_\_7. In the appraisal process, an appraiser should consider competitive listings, properties presently under contract, and those that have actually sold/closed.
  
- \_\_\_\_\_8. An appraiser should never use a sale as a comparable if said sale sold more than two months ago.
  
- \_\_\_\_\_9. An appraiser's estimate of value is usually obtained by averaging the comparables and averaging the three approaches to value.

## Part Two: 53 Specific Questions/Issues for Review

1. The purpose of an appraisal is to provide:
  - A. An exact value
  - B. An estimate of value
  - C. Proof of value
  - D. A determination of value
  
2. Market value is defined by all **EXCEPT**:
  - A. The assumption that buyer and seller are sufficiently informed
  - B. The allowance of a reasonable time for market exposure
  - C. The relation to the price for which the property should sell in the open market
  - D. The consideration of the price for which the property was last sold
  
3. An appraiser might be hired for all of the following reasons **EXCEPT**:
  - A. Feasibility studies
  - B. Highest and best use analysis
  - C. Mortgage loan purposes
  - D. Land surveying and title inspections
  
4. Which of the following types of value is the typical lender most interested in?
  - A. Investment value
  - B. Insured value
  - C. Salvage value
  - D. Market Value
  
5. The elements of value include all of the following **EXCEPT**
  - A. Utility
  - B. Scarcity
  - C. Demand
  - D. Cost

6. Which would have an effect on the value of property?
- A. Migration of people
  - B. Taxes
  - C. Government regulations
  - D. Interest rates
  - E. All of the above
7. Real estate values are most affected by:
- A. Location
  - B. Availability of money
  - C. Appraisal
  - D. National trends
8. A \$100,000 house was built next to a \$50,000 house. Which of the following principals of value would apply?
- A. Substitution
  - B. Competition
  - C. Conformity
  - D. Anticipation
9. If a young couple were thinking of buying a certain house, they would probably be least concerned about which of the following?
- A. Cost of the house 10 years ago
  - B. Present selling prices of homes in the area
  - C. Distance of the dwelling from schools, shopping, and public transportation
  - D. Asking prices of other available homes in the area
10. Which BEST describes the principle that a home maintains its highest value in a neighborhood with similar homes and a similar type of housing?
- A. Substitution
  - B. Conformity
  - C. Highest and best use
  - D. Competition
11. A house maintains its highest value in a neighborhood with similar houses. This is known as the principal of:
- A. Substitution
  - B. Conformity
  - C. Highest and best use
  - D. Competition

12. In doing a neighborhood analysis, an appraiser should consider the proximity of public transport and shopping to the neighborhood.
- A. True
  - B. False
13. The principle of value that states...”the maximum value a property tends to be set by the cost of purchasing an equally desirable and valuable replacement property...
- A. Highest and best use
  - B. Substitution
  - C. Supply and demand
  - D. Competition
14. An appraiser is looking at the growth, stability and decline of an area. The appraiser is dealing with
- A. Neighborhood Cycle
  - B. Site analysis
  - C. Functional obsolescence
  - D. Economic obsolescence
15. Which of the following would an appraiser **NOT** consider when doing a neighborhood analysis?
- A. The proximity to the lake
  - B. That 80% of the population was Spanish speaking
  - C. There are no vacant lots available
  - D. That 60% of the people were tenants
16. All of the following factors influence the marketability of real estate **EXCEPT**:
- A. Location
  - B. Demographics of the area
  - C. Available financing
  - D. Racial composition of the community
17. When an appraiser makes a site analysis on residential property, the appraiser would be concerned with all of the following **EXCEPT**:
- A. How far back the house sets from the street
  - B. The way the morning sun hits the back of the house
  - C. The amount of mature trees and shrubs on the lot
  - D. The cost to replace the dwelling

18. Which of the following would **LEAST** influence the market value of a vacant piece of property?
- A. Utility
  - B. Plottage
  - C. Land contours
  - D. Replacement costs
19. All of the following elements have an effect on real estate value **EXCEPT**:
- A. Zoning ordinances
  - B. Topography
  - C. Cost of title insurance
  - D. Building codes
20. Which would affect property values?
- A. Size of the lot
  - B. View of the lot
  - C. Location of the lot
  - D. All of the above
21. Which should an appraiser not consider in doing an appraisal?
- A. How the house is situated on the lot in relation to the street
  - B. The color of the house, both inside and out
  - C. The racial composition of the neighborhood
  - D. The topography of the site
22. Which would **NOT** have an effect on the value of property?
- A. Migration of people
  - B. Real Property taxes
  - C. Government regulations
  - D. Personal property taxes
23. An appraiser who was comparing the effective age and the actual age of a property would consider:
- A. Modernizing or maintaining the building could decrease the effective age
  - B. If the property is improved with new material it could decrease the effective age
  - C. The effective age could be more than the actual age
  - D. All of the above

24. When an appraiser uses the phrase “effective age”. he is referring to
- A. The number of years since the improvements were made
  - B. The age of the property based upon its condition
  - C. The estimated total life of an improvement
  - D. The number of years during which the property will yield a worthwhile return on investment
25. An appraiser measuring the area of a house would use the:
- A. Net rentable area
  - B. Exterior dimensions
  - C. Room sizes
  - D. Interior dimensions, excluding partitions
26. An appraiser would best use the market data approach on a(n)
- A. Oil refinery
  - B. Vacant lot
  - C. Gas Station
  - D. Hotel
27. The cost approach is used **LEAST** successfully on which properties?
- A. New properties
  - B. Special purpose properties
  - C. Income properties
  - D. Vacant land
28. Which valuation approach is **BEST** for valuing a residential property?
- A. Cost
  - B. Market data
  - C. Income
  - D. Summation
29. Which valuation approach is best for estimating the value of a single family dwelling?
- A. Cost
  - B. Market data
  - C. Income
  - D. Summation

30. Which approach to value is usually best for a 200-unit apartment building?
- A. Cost
  - B. Income
  - C. Summation
  - D. Direct sales comparison
31. Which valuation approach is best used on a church?
- A. Gross income
  - B. Market data
  - C. Cost
  - D. Income analysis
32. Mr. Jones buys a lot for \$30,000 and builds a house on it for \$200,000. The \$230,000 he has in the property represents its:
- A. Market price
  - B. Market value
  - C. Cost
  - D. Value in use
33. Which one of the following statements concerning reproduction cost and replacement cost is false?
- A. Reproduction cost is typically used on properties that are historical
  - B. Reproduction cost and replacement cost are always the same
  - C. Replacement cost is used in the cost approach of most single family dwellings
  - D. Reproduction cost of a building is typically higher than the replacement cost of the same building
34. In appraising a home built 30 years ago, an appraiser would most likely exclude from his value estimate
- A. An estimate of the current land as if it was vacant
  - B. An estimate of the reproduction cost of the improvements
  - C. An estimate of the replacement cost of the improvements
  - D. Depreciation of improvements
35. Physical deterioration most closely means:
- A. Obsolescence
  - B. Wear and tear
  - C. Reversion
  - D. Recapture

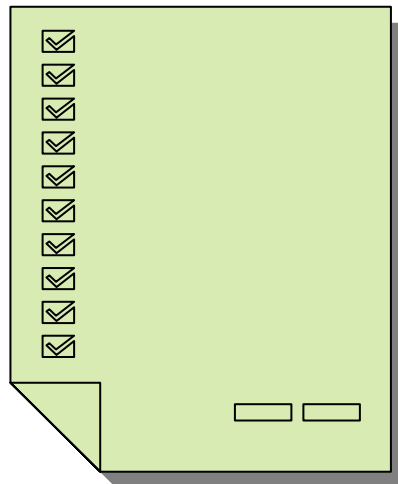
36. External obsolescence in a property is generally
- A. A result of poor maintenance
  - B. Due to architectural faults
  - C. A type of depreciation that is incurable
  - D. Caused by the aging process
37. Which of the following is an example of functional obsolescence?
- A. A leaky roof
  - B. Inadequate wiring
  - C. A declining neighborhood
  - D. non-conforming use due to zoning
38. An owner was building a house for himself. Due to personal preference he decided to omit a bathtub in the house. This is an example of:
- A. Physical depreciation
  - B. Economic obsolescence
  - C. Functional obsolescence
  - D. Social obsolescence
39. Which would be a contributing factor toward functional obsolescence?
- A. Corroded wood
  - B. Sagging floors
  - C. No indoor bathtub
  - D. Storm damage
40. Which of the following is an example of physical depreciation?
- A. A house with no plumbing
  - B. A house with damaged siding
  - C. A house next to a busy airport
  - D. A house with no electrical service
41. A property in an area with a lot of smoke and soot from nearby factories suffers from:
- A. Physical depreciation
  - B. Functional obsolescence
  - C. Worth obsolescence
  - D. External obsolescence

42. Which of the following is usually caused by a poor floor plan in a house?
- A. Curable physical deterioration
  - B. Incurable physical deterioration
  - C. Incurable external obsolescence
  - D. Incurable functional obsolescence
43. All of the following are examples of functional obsolescence **EXCEPT**:
- A. Inadequate side wall insulation
  - B. Peeling paint
  - C. A poor floor plan
  - D. No central heating system
44. Which of the following situations is the best example of functional obsolescence?
- A. A residential home built next to a factory
  - B. A frame home with the outside paint peeling
  - C. A steep narrow stairway in a two story house
  - D. A residential home with central air conditioning
45. The market data approach is based on which of the following principals?
- A. Substitution
  - B. Competition
  - C. Anticipation
  - D. Conformity
46. The sales comparison approach to value is based on the premise that many people buy real property
- A. On an emotional impulse
  - B. After determining its future income as value
  - C. After determining the cost of reproducing the property
  - D. After comparing it to others with similar features
47. Which of the following best describes the term “comparable”?
- A. A property that is adjacent to the subject property
  - B. A property that is vastly superior to the subject property
  - C. A property that is substantially equivalent to the subject property
  - D. A property that is one-of-a-kind

48. Five people each agreed to pay \$100,000 for identical model houses in a new subdivision. In each case the buyer's contract called for the builder to provide special financing at 2% below the market rate. The terms and conditions of the above sales are an example of those properties':
- A. Cost
  - B. Market Value
  - C. Market Price
  - D. Discount
49. An appraiser who is using the comparison or market data approach to appraise a single-family residence should not use the selling price of which of the following?
- A. A home of smaller size situated next to a school
  - B. A similar home that was sold by owners who were forced to sell due to financial difficulties
  - C. A similar home that sold more than seven months ago
  - D. A similar home that sold more recently, but is located in another subdivision
50. If a homeowner adds an in-ground pool to the house at a cost of \$35,000, then the property's market value will automatically go up by \$35,000.
- A. True
  - B. False
51. In doing a market analysis, an appraiser found a recently sold property where the owners have just gone through a divorce. The property had been listed for \$60,000 for three months, but sold for only \$40,000. Should the appraiser use this as a comparable?
- A. Yes, the appraiser would use the actual sale price of \$40,000
  - B. Yes, it was a comparable type of property
  - C. No, it had only been listed for three months
  - D. No, it was a distressed sale due to divorce
52. In valuing a single-family residence by the comparison approach, an appraiser would make an adjustment to
- A. The comparable properties
  - B. The subject property
  - C. Both the comparables and the subject property
  - D. Current properties being offered for sale

53. In the market comparison approach, the value of a feature present in the comparable property, but not in the subject property would be
- A. Added to the comparable
  - B. Subtracted from the comparable
  - C. Omitted from the estimate
  - D. Added to the subject

## Part Three: The Appraisal Form...



Please review forms: Appraisal Form 1004 and 1004 MC, each used regularly by appraisers for single family properties.

<http://www.freddiemac.com/sell/forms/pdf/70.pdf>

<http://www.freddiemac.com/sell/forms/pdf/71.pdf>



## **Part Four**

The following seven (7) pages of checklists designed to provide you with helpful information that you might use to educate or assist consumers on this topic “Appraisal”.

## **4 Characteristics of Value Every Seller Should Remember**

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\_\_\_\_\_ **1. Demand**

Demand is in the eye of the beholder. It varies from person to person. The demand for a particular piece of real estate changes as the wants of each individual change.

\_\_\_\_\_ **2. Utility**

In order for real estate to have value it must have usefulness or utility. Usefulness creates a desire for possession and has the power to give satisfaction. Will the typical buyer in the marketplace have their needs met by purchasing your home?

\_\_\_\_\_ **3. Scarcity**

In order for real estate to be of value it must be relatively scarce. If too many houses like yours are for sale, it will negatively impact the value of your home.

\_\_\_\_\_ **4. Purchasing Power**

Purchasing power is created by desire. Can the buyer who desires the property afford the property? The more people that can afford the property, the better.

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## **5 Reasons Why Pricing Your Home Correctly in the Beginning Is So-o-o-o Important**

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- \_\_\_\_\_1. Your home is most likely to sell for top dollar when it's fresh to the market.
  - \_\_\_\_\_2. Buyers buy after they shop around. Buyers are in search of the best buy. If your home is priced too high, it will make the other homes look more attractive.
  - \_\_\_\_\_3. Your property will need to be appraised. If it appraises below the contract price you may have a problem.
  - \_\_\_\_\_4. Other than possibly location, price is the most critical item that both buyers and real estate agents look to when selecting homes to view.
  - \_\_\_\_\_5. Negotiations
    - If priced too high, it's possible that no one will seriously consider or see the benefit of starting negotiations.
    - The more accurately priced the property is, the less likely the buyer is to start the negotiations with a "low ball" offer or even see the need to negotiate.

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## **7 Things Every Consumer Needs to Know About a Real Estate Appraisal**

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- \_\_\_\_\_1. It is an objective opinion of value. It is not an exact science. If three appraisers appraised the same property, they might assign three different estimates of value.
- \_\_\_\_\_2. Most sellers, buyers and lenders want an appraisal that reflects the market value rather than the insured value, assessed value, sentimental value or other types of value.
- \_\_\_\_\_3. An appraiser's estimate of value typically reflects the current market conditions in the subject property's marketplace. This can change dramatically if market conditions shift.
- \_\_\_\_\_4. The appraiser's estimate of value reflects the most probable price the property will sell for without special considerations or circumstances.
- \_\_\_\_\_5. The best indicator of market value for residential property is found by applying the sales comparison approach.
- \_\_\_\_\_6. Most lenders base a buyer's loan amount on either the sales price or the appraised value of the property; whichever is less.
- \_\_\_\_\_7. Many homebuyers today are writing their offers to purchase subject to the property appraising at or above the sales contract price.

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## **8 Different Kinds of Value And the One That Most People Care About...**

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- \_\_\_\_\_ **1.** Assessed Value
  - \_\_\_\_\_ **2.** Insurance Value
  - \_\_\_\_\_ **3.** Salvage Value
  - \_\_\_\_\_ **4.** Use Value
  - \_\_\_\_\_ **5.** Replacement Value
  - \_\_\_\_\_ **6.** Reproduction Value
  - \_\_\_\_\_ **7.** Sentimental Value (Homeowner's Value)
  - \_\_\_\_\_ **8.** Market Value\*

\*Market Value is the type of value most often pursued in the typical residential real estate transaction.

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# 17 Things That Every Appraiser Considers When Comparing Your Property to Other Properties in The Marketplace

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- \_\_\_\_\_1. The market conditions on the date of sale
- \_\_\_\_\_2. Location, location, location
- \_\_\_\_\_3. The site/view both looking at the property and looking from the property out
- \_\_\_\_\_4. The design and appeal of the dwelling
- \_\_\_\_\_5. The quality of construction
- \_\_\_\_\_6. Age of property
- \_\_\_\_\_7. Condition of property
- \_\_\_\_\_8. Total number of rooms
- \_\_\_\_\_9. Number and types of rooms (bedrooms, bathrooms, etc)
- \_\_\_\_\_10. Square footage (gross livable area)
- \_\_\_\_\_11. Is there a basement?
- \_\_\_\_\_12. Is basement finished? If so, number and types of rooms
- \_\_\_\_\_13. How functional is the property? (good, average, fair, poor)
- \_\_\_\_\_14. Is there central air conditioning?
- \_\_\_\_\_15. What type of car storage is available? (garage, carport, etc.)
- \_\_\_\_\_16. Are there any special features that your property offers? (porches, patios, pool, fireplace, special heating/cooling equipment, skylights, etc.)
- \_\_\_\_\_17. Were there any special financing or special sales considerations that might have impacted value for the comparable properties?

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## 22 Items to Consider When Shopping For a Neighborhood

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- \_\_\_\_ 1. Neighborhood build-up Over 80% 30-80% under 30%
- \_\_\_\_ 2. Growth rate for area: Fully developed Rapid Steady Slow
- \_\_\_\_ 3. Property values: Increasing Stable Slow
- \_\_\_\_ 4. Supply/Demand Shortage Stable Slow
- \_\_\_\_ 5. How long does it take for a home to sell? < 3mos. 4-6mos. > 6 mos.
- \_\_\_\_ 6. Present land use: \_\_\_\_% single family \_\_\_\_% 2-4 units \_\_\_\_% apts. \_\_\_\_% condos  
\_\_\_\_% commercial \_\_\_\_% industrial \_\_\_\_% vacant
- \_\_\_\_ 7. What is the probability of the land use changing in this area?  
Not likely \_\_\_\_\_ Likely \_\_\_\_\_ Very likely(how soon?) \_\_\_\_\_
- \_\_\_\_ 8. Are most occupants in area: \_\_\_\_\_% homeowners \_\_\_\_\_% tenants  
\_\_\_\_% vacant
- \_\_\_\_ 9. Single Family price range: \$ \_\_\_\_\_ to \$ \_\_\_\_\_  
Predominant Value \$ \_\_\_\_\_
- \_\_\_\_ 10. Single Family home age: \_\_\_\_\_yrs. to \_\_\_\_\_yrs.  
Predominant Age \_\_\_\_\_

Grade the area on the following items:	Good	Average	Fair	Poor
11. Employment Security				
12. Convenience to employment				
13. Convenience to shopping				
14. Convenience to schools				
15. Adequacy of Public Transportation				
16. Recreational Facilities				
17. Adequacy of Utilities				
18. Property Compatibility				
19. Protection for detrimental conditions				
20. Police and Fire protection				
21. General appearance of properties				
22. Appeal to market				

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# Updated "X-Rays" Concerning The Value of Your Home

## A Simple Feedback System to Help You Reach Your Goals

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Feedback from the activity in the marketplace is extremely important. By evaluating the current competition and recent sales, you will gain information to assist in making decisions regarding the current pricing of your home. Most activity will take place in the first 3-4 weeks. After the initial period, the activity may slow down until new buyers arrive in the marketplace.

During this period of time your property was shown or previewed \_\_\_\_\_ times.  
Reporting Period \_\_\_\_\_ to \_\_\_\_\_

Comments from agents and clients:

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### NEW Competition

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Address	Price
Address	Price

### NEW Recent Sales:

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Address	Price
Address	Price

### NEW Properties Pending, Recent properties that have gone under contract:

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Address	Price
Address	Price

### NEW Expired Listings...homes that failed to sell due to price:

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Address	Price
Address	Price

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## **Part Five: Closing Reminders**

**As we all know, an appraisal is...**

- **An opinion of value**
- **Not an exact science...5 Appraisers...5 possible opinions**

**Most appraisals on residential properties are...**

- **In search of “market value”**
- **Concerned with value issues like:**
  - **Location ...most important**
  - **Square footage (size...exterior dimensions.. no garage)**
- **More concerned with effective age than actual age**
- **Emphasis on “sales comparison approval...not income or cost**

**Approaches to Value**

- **Cost...seldom the best approach (cost does not equal value)**
- **Income...for income properties like an apartment building**
- **Sales comparison (market data)**
  - **Based on principal of substitution**
  - **Best approach to single family houses etc.**

**Losses of Value**

- **Physical depreciation...wear and tear**
- **External obsolescence**
  - **Loss in value from outside the property’s bounds**
  - **Usually incurable**
  - **Sample...backs up to a negative factor**
- **Functional obsolescence**
  - **A use problem or outdated (ex: poor insulation)**
  - **Within the property’s bounds**

## Other key terms & concepts

- **Conformity...the better a property “fits-in” to an area, the more valuable**
- **Comparables...properties that are substantially the equivalent...does not need to be exact...just similar**  
**Key Notes (cont’d)**
- **Decreasing return... an improvement that you won’t re-coop your money at sale**
- **Appraisers don’t average the three approaches... one approach is typically superior to the others based on the type of property being appraised and the data available**
- **Racial composition of an area is a non-issue**

## **Answer Key**

### **Opening Quiz**

- 1. 3,258 square feet**
- 2. F**
- 3. T**
- 4. F**
- 5. F**
- 6. T**
- 7. T**
- 8. F**
- 9. F**

### **Part Two**

- 1. B**
- 2. D**
- 3. D**
- 4. D**
- 5. D**
- 6. E**
- 7. A**
- 8. C**
- 9. A**
- 10. B**
- 11. B**
- 12. A**
- 13. B**
- 14. A**
- 15. B**
- 16. D**
- 17. D**
- 18. D**
- 19. C**
- 20. D**
- 21. C**
- 22. D**
- 23. D**
- 24. B**

- 25. B
- 26. B
- 27. D
- 28. B
- 29. B
- 30. B
- 31. C
- 32. C
- 33. B
- 34. B
- 35. B
- 36. C
- 37. B
- 38. C
- 39. C
- 40. B
- 41. D
- 42. D
- 43. B
- 44. C
- 45. A
- 46. D
- 47. C
- 48. C
- 49. B
- 50. B
- 51. D
- 52. A
- 53. B