

APPLYING THE MARKET DATA APPROACH

An indication of the values of a property can be derived through analysis of the selling prices of comparable properties. The use of this technique, often referred to as the “comparison approach” or “comparable sales approach”, involves the selection of a sufficient number of valid comparable sales and the adjustment of each sales to subject property to account for variations in time, location, site and structural characteristics.

SELECTING VALID COMPARABLES

Since market value has been defined as the price defines as the price which as informed and intelligent buyer, fully aware of the existence of competing properties and not being compelled to act is justified in paying for a particular property, it follows that if market value is to be derived from analyzing comparable sales, that the sales must represent valid “arm’s length” transactions. Due consideration must be given to the conditions must be given to the conditions and circumstances of each sale before selecting the sales for analysis. Some examples of sales do not normally reflect valid market conditions are as follows:

Sales in connection with: foreclosures, bankruptcies, condemnations and other legal actions.

Sales to or by federal, state, county and local governmental agencies.

Sales to or by religious, charitable or benevolent tax-exempt agencies.

Sales involving family transfers, or “love and affection.”

Sales involving intra-corporate affiliations.

Sales involving the retention of the life interests.

Sales involving cemetery lots.

Sales involving mineral or timber rights, and access or drainage rights.

Sales involving the transfer of part interest.

In addition to selection valid market transaction, it is equally important to select properties that are truly comparable to the property under appraisal. For instance, sales involving both real property and personal property or chattels may not be used unless the sales can be adjusted to reflect only the real property transaction, nor can sales of non-operating or deficient industrial plants be validly compared with operating plants. The comparable sales and subject properties must exhibit the same use, and the site and structural characteristics must exhibit an acceptable degree of comparability.

PROCESSING COMPARABLE SALES

All comparable sales must be adjusted to the subject property to account for variations in time and location. The other major elements of comparison will differ depending upon the type of property being appraised. In selecting these elements, the appraiser must give prime consideration to the same factors that influence the prospective buyers of particular types of properties.

The typical home buyer is interested in the property's capacity to provide the family with a place to live. A primary concern is with the living area, utility, number of rooms, number of baths, age, structural quality and condition, and the presence of a modern kitchen and recreational conveniences of the house. Equally important is the location and neighborhood, including the proximity to and the quality of schools, public transportation, and recreational and shopping facilities.

In addition to the residential amenities, the buyer of agricultural property is primarily interested in the productive capacity of the land, the accessibility to the market place, and the condition and functional utility of the farm building and structures on the land.

The typical buyer of commercial property, including warehouses and certain light industrial plants, is primarily concerned with its capability to produce revenue. Of special interest will be the age, design and structural quality and condition of the improvements, the parking facilities, and the location relative to transportation, labor markets and trade centers.

In applying the market data approach to commercial/industrial property, the appraiser will generally find it difficult to locate a sufficient number of comparable sales, especially of properties that are truly comparable in their entirety. It will, therefore, generally be necessary to select smaller units of comparison such as price per square foot, per unit, per room, etc. In doing so, great care must be exercised in selecting a unit of comparison that represents a logical common denominator for the properties being compared. A unit of comparison that is commonly used and proven to be fairly effective is the Gross Rent Multiplier, generally referred to as G.R.M, which is derived by dividing the gross annual income into the sales price. Using such units of comparison enables the appraiser to compare two properties that are similar in use structural features, but differ significantly in size and other characteristics.

Having selected the major factors of comparison, it remains for the appraiser to adjust each of the factors to the subject property. In comparing the site, adjustments for size, location, accessibility, and site improvements must be made. In comparing the structures, adjustments for size, quality, design, condition, and significant structural and mechanical comparable also must be made. The adjusted selling prices of the comparable properties will establish a range in which the value of the subject property will fall. Further analysis of the factors should enable the appraiser to narrow the range down to the value level that is most applicable to the subject property.