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Supporting adjustments: Two examples used in appraisal

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Appraisers must have market support for their conclusions. These conclusions include the adjustments they make in the approaches to value developed within an appraisal.

The preferred method of making supported adjustments is from the comparison of matched pairs. When there are two sales with only one differing aspect, the variance in sale price is attributed to the one aspect. This method may be difficult to use due to other influences and appraisers may, from time to time, have to look for another method of supporting adjustments. One way to support adjustments is the cost approach.

The valuation of the subject's site is the first step in the development of the cost approach. This is information that is significant in the sales comparison approach if the appraiser is considering an adjustment for location, site, or view. These three items are land adjustments. If a location adjustment is indicated for comparable sale the appraiser must support the adjustment. The adjustment is the difference between the subject land value and the land value of the comparable sale. In order to make this adjustment the appraiser must know both the value of the subject site and of the comparable site.

One method that can be used to support these values is the allocation approach. The percentage contribution of the site to the overall value is developed. This percentage can then be applied to the sale prices of the comparables to arrive at their indicated land values. Once the land values have been estimated they then can be compared to arrive at any indicated adjustments for location, site (which includes lot size) and view. The result is totally supported, matched paired adjustments for these potential differences.

Appraisers often struggle to support the size of condition adjustments. A sale is reported to be inferior or superior to the condition of the subject. The problem is how does the market perceive this difference and what is the dollar impact on value?

The cost approach may offer a solution. The condition of a property is directly related to the effective age. If we know the land value of a sale we can determine the effective age. If two sales have different effective ages and the only difference is condition then an adjustment for condition can be supported.

The first step is deduction of the indicated land value for each sale. This can be supported in a number of ways. As discussed earlier one method of supporting a land value is allocation. The land value is deducted from the sale price to arrive at the depreciated contribution of the improvements. The cost new of the comparable is estimated and the value of the existing improvements is deducted to indicate accrued depreciation. A percentage can be developed by dividing the accrued depreciation by the cost new. The effective age can be estimated by multiplying the depreciation by the economic life. If this analysis is done for similar sales with no functional obsolescence any difference in effective age is a basis for a condition adjustment. If a sale considered similar to the

subject has an effective age of 15 years and another sale considered inferior in condition has an effective age of 20 years the adjustment for condition can reasonably be the difference of 5 years divided by the economic life. The contribution of the subject's improvements (sale price less land) is multiplied by the difference in effective age to arrive at a supported adjustment for condition. These are only two examples of how adjustments can be supported in an appraisal. The responsibility of the appraiser is to support their adjustments by the best method available.

Steven Spangle, SRA, MRA, is principal at Spangle Associates, Auburn, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540