

Table of Contents

Chapter 1: Introduction 1

- I. WHY APPRAISAL IS IMPORTANT (p. 3)**
- II. DEFINITION OF APPRAISAL (p. 3)**
 - A. Opinion (p. 4)
 - B. Value (p. 4)
 - C. Appraisal – Art or Science? (p. 5)
 - D. Appraisal Practice (p. 5)
 - E. Consulting (p. 5)
 - F. Review (p. 6)
- III. HISTORY OF APPRAISAL (p. 6)**
 - A. Appraisal Foundation (p. 7)
- IV. PURPOSES AND USES OF APPRAISALS (p. 8)**
 - A. Standards of Appraisal (p. 8)
 - B. Statements (p. 8)
 - C. Advisory Opinions (p. 8)
 - D. Intended Use, Intended Users, and Standard of Value (p. 8)
 - E. Career Opportunities (p. 10)
 - F. Real Estate (p. 11)
- V. DISTINGUISHING REAL ESTATE FROM PERSONAL PROPERTY (p. 12)**
 - A. Method of Attachment (p. 12)
 - B. Adaptability (p. 13)
 - C. Relationship of Parties (p. 13)
 - D. Intention of the Interested Parties (p. 13)
 - E. Agreement of the Parties (p. 13)
 - F. Trade Fixtures (p. 14)
- VI. REAL PROPERTY (p. 14)**
 - A. Bundle of Rights (p. 14)
 - B. Estates (p. 15)
 - C. Encumbrances (p. 18)
- VII. GOVERNMENT RESTRICTIONS OF PROPERTY RIGHTS (p. 20)**
 - A. Eminent Domain (p. 20)
 - B. Taxation (p. 21)
 - C. Police Power (p. 21)
 - D. Escheat (p. 21)
- VIII. CHAPTER SUMMARY (p. 22)**
- IX. CLASS DISCUSSION TOPICS (p. 24)**
- X. CHAPTER 1 QUIZ (p. 24)**

Chapter 2: Understanding Value 27

- I. WHAT IS VALUE? (p. 30)**
- II. FOUR CHARACTERISTICS OF VALUE (p. 30)**
 - A. Utility (p. 31)
 - B. Scarcity (p. 31)
 - C. Transferability (p. 31)
 - D. Effective Demand (p. 31)
- III. VALUE DISTINGUISHED FROM PRICE AND COST (p. 32)**
 - A. Direct and Indirect Costs (p. 32)



- B. Development Cost and Construction Cost (p. 33)
- C. Replacement Cost and Reproduction Cost (p. 33)
- IV. PRINCIPLES OF APPRAISAL (ECONOMIC VALUE) (p. 34)**
 - A. Principle of Supply and Demand (p. 35)
 - B. Principle of Substitution (p. 36)
 - C. Principle of Competition (p. 36)
 - D. Principle of Change (p. 37)
 - E. Principle of Anticipation (p. 39)
 - F. Principle of Balance (p. 39)
 - G. Principle of Surplus Productivity (p. 40)
 - H. Principle of Contribution (p. 40)
 - I. Principle of Increasing and Decreasing Returns (p. 41)
- V. EFFECT OF USE ON REAL ESTATE VALUE (p. 41)**
 - A. Highest and Best Use Principle (p. 42)
 - B. Consistent Use Principle (p. 43)
 - C. Conformity, Progression, and Regression Principles (p. 43)
- VI. PRODUCTION AS A MEASURE OF VALUE (p. 44)**
 - A. Agents of Production Principle (p. 44)
- VII. TYPES OF VALUE (p. 45)**
 - A. Market Value (p. 46)
 - B. Price (p. 47)
 - C. Value in Use (p. 48)
 - D. Investment Value (p. 48)
 - E. Liquidation Value (p. 49)
 - F. Assessed Value (p. 49)
 - G. Insurable Value (p. 49)
 - H. Going Concern Value (p. 50)
- VIII. FORCES AFFECTING VALUE (p. 50)**
 - A. Social Factors (p. 50)
 - B. Economic Factors (p. 51)
 - C. Political Factors (p. 53)
 - D. Environmental (Physical) Factors (p. 54)
- IX. CHAPTER SUMMARY (p. 56)**
- X. CLASS DISCUSSION TOPICS (p. 59)**
- XI. CHAPTER 2 QUIZ (p. 60)**

Chapter 3: The Appraisal Process

63

- I. THE EIGHT STEPS OF THE APPRAISAL PROCESS (p. 65)**
- II. STEP 1: DEFINING APPRAISAL PROBLEM (p. 67)**
 - A. What is to be Appraised? (p. 67)
 - B. When is it to be Appraised? (p. 73)
 - C. Why is it to be Appraised? (p. 75)
 - D. How is it Being Valued? (p. 76)
 - E. Defining the Appraisal Problem in the Appraisal Report (p. 86)
- III. STEP 2: PRELIMINARY ANALYSIS (p. 86)**
 - A. Identifying the Necessary Data (p. 87)
 - B. Identifying the Sources of Data (p. 87)
 - C. Preliminary Analysis (p. 87)

- D. Creating a Plan (p. 88)
- E. Fee Proposal and Contract (p. 88)
- IV. STEP 3: COLLECTING, VERIFYING, AND ANALYZING THE DATA (p. 88)**
- V. STEP 4: HIGHEST AND BEST USE ANALYSIS (p. 90)**
- VI. STEP 5: VALUING THE SITE (p. 83)**
 - A. Reasons for Separate Site Valuation (p. 90)
- VII. STEP 6: APPLYING THE THREE APPROACHES TO VALUE (p. 91)**
 - A. Cost Approach (p. 91)
 - B. Sales Comparison Approach (p. 92)
 - C. Income Approach (p. 92)
- VIII. STEP 7: RECONCILING THE VALUE INDICATORS (p. 93)**
- IX. STEP 8: REPORTING THE VALUE ESTIMATE (p. 94)**
 - A. The Three Basic Appraisal Reports (p. 94)
 - B. Essential Elements of the Appraisal Report (p. 95)
- X. CHAPTER SUMMARY (p. 96)**
- XI. CLASS DISCUSSION TOPICS (p. 99)**
- XII. CHAPTER 3 QUIZ (p. 100)**

Chapter 4: Property Description and Appraisal Math

103

- I. PROPERTY DESCRIPTION (p. 105)**
- II. METES AND BOUNDS (p. 106)**
 - A. Reference Points (p. 106)
 - B. Courses and Distances (p. 108)
- III. RECTANGULAR (U.S. GOVERNMENT) SURVEY (p. 108)**
 - A. Base Line and Meridian (p. 109)
 - B. Townships (p. 109)
 - C. Sections (p. 111)
 - D. Partial Sections (p. 111)
 - E. Adjustments and Government Lots (p. 112)
 - F. Rectangular Survey Descriptions (p. 113)
 - G. Geodetic Survey System (p. 113)
- IV. LOT AND BLOCK SYSTEM (p. 113)**
- V. APPRAISAL MATH (p. 114)**
 - A. Distance, Area, and Volume (p. 114)
 - B. Area of a Rectangle (p. 116)
 - C. Units of Area (p. 116)
 - D. Converting Units (p. 117)
 - E. Area of a Triangle (p. 118)
 - F. Right Triangles (p. 119)
 - G. Areas of Complex Figures (p. 120)
 - H. Volume (p. 120)
 - I. Reciprocals (p. 123)
 - J. Percentages (p. 123)
 - K. Direct Capitalization (p. 125)
 - L. Interest (p. 126)



- VI. FINANCIAL CALCULATIONS (p. 127)
 - A. Present and Future Value (p. 127)
 - B. Interest Compounding (p. 128)
 - C. "Hoskold" or Sinking Fund Method (p. 129)
 - D. "Inwood" Method (p. 129)
- VII. MEASURES OF CENTRAL TENDENCY (p. 129)
- VIII. CHAPTER SUMMARY (p. 131)
- IX. CLASS DISCUSSION TOPICS (p. 133)
- X. CHAPTER 4 QUIZ (p. 134)

Chapter 5: Data Collection and Analysis

137

- I. UNDERSTANDING DATA (p. 139)
 - A. Market Trend Data (p. 139)
 - B. Competitive Supply and Demand Data (p. 140)
 - C. Subject Property Data (p. 141)
 - D. Comparable Property Data (p.141)
- II. REGIONAL AND COMMUNITY DATA (p. 142)
 - A. Use of Regional and Community Data (p. 142)
 - B. Regional and Community Value Indications (p. 144)
 - C. Housing Supply and Demand (p. 145)
- III. NEIGHBORHOOD DATA (p. 148)
 - A. Defining Neighborhood Boundaries (p. 149)
 - B. Neighborhood Value Indicators (p. 149)
 - C. Sources of Neighborhood Data (p. 152)
 - D. Neighborhood Inspection (p. 152)
- IV. SITE DATA (p. 155)
 - A. Site Description (p. 155)
 - B. Physical Data (p. 156)
- V. BUILDING DATA (p. 158)
 - A. Categories of Building Data (p. 159)
- VI. SPECIFIC MARKET DATA (p. 164)
 - A. Prices and Terms of Sale (p. 165)
 - B. Date of Sale (p. 165)
 - C. Financing (p. 166)
 - D. Sale Conditions (p. 166)
 - E. Cost Data (p. 166)
 - F. Income and Expense Data (p. 167)
- VII. CHAPTER SUMMARY (p. 168)
- VIII. CLASS DISCUSSION TOPICS (p. 170)
- IX. CHAPTER 5 QUIZ (p. 170)

Chapter 6: Site Valuation

173

- I. HIGHEST AND BEST USE (p. 175)
 - A. Highest and Best Use Defined (p. 175)
 - B. Purpose of Highest and Best Use Analysis (p. 176)
 - C. Characteristics of Highest and Best Use (p. 176)

- D. Importance of the Principle of Anticipation (p. 179)
- E. Interim Uses (p. 180)
- II. VACANT AND IMPROVED LAND (p. 180)**
 - A. Legal Nonconforming Uses (p. 181)
 - B. True Highest and Best Use (p. 181)
 - C. Principle of Consistent Use (p. 183)
 - D. Excess Land (p. 183)
 - E. Plottage (p. 184)
 - F. Highest and Best Use in Residential Appraisals (p. 184)
- III. METHODS OF SITE VALUATION (p. 184)**
 - A. Sales Comparison Method (First and Most Important Method) (p. 185)
 - B. Allocation Method (Second Method) (p. 191)
 - C. Extraction Method (Third Method) (p. 192)
 - D. Development Method (Fourth Method) (p. 193)
 - E. Land Residual Method (Fifth Method) (p. 193)
 - F. Ground Rent Capitalization Method (Sixth Method) (p. 196)
 - G. Depth Tables (“4-3-2-1 Method”) (p. 196)
- IV. CHAPTER SUMMARY (p. 198)**
- V. CLASS DISCUSSION TOPICS (p. 200)**
- VI. CHAPTER 6 QUIZ (p. 200)**

Chapter 7: Residential Construction

203

- I. CLASSIFICATION OF HOUSES (p. 205)**
 - A. Types of Houses (p. 205)
- II. ARCHITECTURAL STYLES (p. 210)**
 - A. Compatibility (p. 210)
- III. ELEMENTS OF HOUSE DESIGN (p. 213)**
 - A. Siting (p. 213)
 - B. Interior Functional Zone (p. 214)
 - C. Room Characteristics (p. 216)
- IV. CONSTRUCTION METHODS AND MATERIALS (p. 219)**
 - A. Foundations (p. 219)
 - B. Framing and Sheathing (p. 222)
 - C. Exterior Finishes (p. 228)
 - D. Doors and Windows (p. 228)
 - E. Insulation (p. 229)
 - F. Ventilation (p. 232)
 - G. Interior Finishes (p. 232)
 - H. Plumbing (p. 234)
 - I. Heating and Air Conditioning (p. 234)
 - J. Electrical (p. 235)
 - K. Quality (p. 235)
- V. CHAPTER SUMMARY (p. 237)**
- VI. CLASS DISCUSSION TOPICS (p. 240)**
- VII. CHAPTER 7 QUIZ (p. 240)**



Chapter 8: Cost Approach to Value

243

- I. BASICS OF THE COST APPROACH (p. 245)
- II. APPLICATION OF THE COST APPROACH (p. 246)
- III. ESTIMATING COST (p. 246)
 - A. Reproduction and Replacement Cost (p. 246)
 - B. Types of Cost (p. 247)
- IV. COST ESTIMATING TECHNIQUES (p. 247)
 - A. Comparative Unit Method (p. 248)
 - B. Unit-In-Place Method (p. 252)
 - C. Quantity Survey Method (p. 254)
 - D. Cost Index Trending (p. 254)
- V. ESTIMATING DEPRECIATION (p. 255)
 - A. Depreciation Terminology (p. 255)
 - B. Age and Economic Life (p. 255)
- VI. TYPES OF DEPRECIATION (p. 256)
 - A. Physical Deterioration (p. 256)
 - B. Functional Obsolescence (p. 257)
 - C. External (Economic) Obsolescence (p. 258)
- VII. METHODS OF ESTIMATING DEPRECIATION (p. 258)
 - A. Economic Age-Life Method (p. 258)
 - B. Sales Comparison Method (p. 260)
 - C. Capitalization Method (p. 260)
 - D. Cost to Cure Method (p. 261)
 - E. Observed Condition Method (p. 261)
- VIII. UNIFORM RESIDENTIAL APPRAISAL REPORT (p. 261)
- IX. CHAPTER SUMMARY (p. 263)
- X. CLASS DISCUSSION TOPICS (p. 265)
- XI. CHAPTER 8 QUIZ (p. 266)

Chapter 9: Sales Comparison Approach to Value 269

- I. MARKET THEORY OF VALUE (p. 271)
- II. REAL ESTATE MARKETS (p. 272)
 - A. Description of Improvements (URAR) (p. 273)
- III. COMPARABLE SALES (p. 278)
- IV. STEPS IN THE SALES COMPARISON APPROACH (p. 278)
 - A. Data Collection (p. 279)
 - B. Verification of Data (p. 279)
 - C. Selecting Units of Comparison (p. 280)
 - D. Analysis and Adjustment of Comparable Prices (p. 281)
 - E. Reconciliation of Comparable Value Indicators (p. 281)
- V. THE ADJUSTMENT PROCESS (p. 282)
 - A. Elements of Comparison (p. 282)
- VI. ADJUSTMENT TECHNIQUES (p. 292)
 - A. Paired Data Analysis (p. 293)
 - B. Relative Comparison Analysis (p. 297)
 - C. Analysis of Price Per Square Foot (p. 297)

- VII. CALCULATION OF PERCENTAGE ADJUSTMENTS (p. 297)
- VIII. SEQUENCE OF ADJUSTMENTS (p. 299)
- IX. RECONCILIATION (p. 300)
- X. CHAPTER SUMMARY (p. 303)
- XI. CLASS DISCUSSION TOPICS (p. 305)
- XII. CHAPTER 9 QUIZ (p. 306)

Chapter 10: Income Approach to Value **309**

- I. USE OF THE INCOME APPROACH (p. 311)
- II. INVESTOR'S PERCEPTION OF VALUE (p. 311)
 - A. Rate of Return (p. 312)
 - B. Competing Investment Opportunities (p. 314)
- III. INCOME CAPITALIZATION (p. 314)
 - A. Direct Capitalization (p. 315)
 - B. Income Estimation (p. 316)
 - C. Multipliers and Capitalization Rates (p. 320)
 - D. Calculating Value by Direct Capitalization (p. 324)
 - E. Yield Capitalization (p. 327)
- IV. DISCOUNTING (p. 327)
 - A. Compounding (p. 328)
 - B. Annuities (p. 329)
 - C. Yield Rates (p. 329)
- V. CHAPTER SUMMARY (p. 332)
- VI. CLASS DISCUSSION TOPICS (p. 335)
- VII. CHAPTER 10 QUIZ (p. 336)

Chapter 11: Reconciliation and Final Value Opinion **339**

- I. RECONCILIATION (p. 340)
 - A. Definition of Reconciliation (p. 341)
 - B. Use of Reconciliation in Appraisals (p. 341)
- II. THE RECONCILIATION PROCESS (p. 343)
 - A. Reviewing the Appraisal (p. 343)
 - B. Assessing the Reliability of Value Indicators (p. 345)
 - C. The Reconciliation Judgment (p. 347)
- III. FINAL OPINION OF VALUE (p. 348)
 - A. Uniform Residential Appraisal Report (p. 348)
 - B. Point Estimates and Range Values (p. 349)
 - C. Self Review (p. 351)
- IV. CHAPTER SUMMARY (p. 351)
- V. CLASS DISCUSSION TOPICS (p. 353)
- VI. CHAPTER 11 QUIZ (p. 354)

Chapter 12: The Appraisal Report **357**

- I. FUNCTION OF THE APPRAISAL REPORT (p. 359)
- II. REPORTING REQUIREMENTS UNDER USPAP (p. 359)



- A. Complete and Limited Appraisal Reports (p. 359)
- B. Oral and Written Appraisal Reports (p. 360)
- C. Narrative Reports (p. 360)
- D. Form Reports (p. 364)
- III. UNIFORM RESIDENTIAL APPRAISAL REPORT (URAR) (p. 366)**
 - A. Page One of the URAR (p. 373)
 - B. Page Two of the URAR (p. 379)
 - C. Page Three of the URAR (p. 382)
 - D. Pages Four Through Six of the URAR (p. 384)
 - E. Desktop Underwriter's Quantitative Analysis Report (p. 384)
 - F. Desktop Underwriter's Property Inspection Report (p. 384)
 - G. Computer Aids (p. 384)
- IV. CHAPTER SUMMARY (p. 391)**
- V. CLASS DISCUSSION TOPICS (p. 391)**
- VI. CHAPTER 12 QUIZ (p. 392)**

Chapter 13: Appraising Special Interests

395

- I. PARTIAL INTERESTS IN REAL ESTATE (p. 397)**
 - A. Ways to Divide the Fee Simple (p. 397)
 - B. Partition Action (p. 404)
- II. APPRAISING PARTIAL INTERESTS (p. 405)**
 - A. Leasehold and Leased Fee Interests (p. 405)
 - B. Easements (p. 409)
 - C. Liens (p. 409)
 - D. Shared Ownership Interests (p. 410)
- III. OTHER FORMS OF OWNERSHIP (p. 410)**
 - A. Condominiums and PUDs (p. 410)
 - B. Cooperatives (p. 412)
 - C. Timeshares (p. 413)
 - D. Manufactured Homes (p. 413)
 - E. Prefabricated/Modular Homes (p. 415)
 - F. Ground Leases (p. 415)
- IV. CHAPTER SUMMARY (p. 417)**
- V. CLASS DISCUSSION TOPICS (p. 419)**
- VI. CHAPTER 13 QUIZ (p. 420)**

Chapter 14: The Appraisal Profession

423

- I. STANDARDS (p. 424)**
- II. PROFESSIONAL ASSOCIATIONS (p. 425)**
- III. STANDARDS OF PROFESSIONAL COMPETENCE AND CONDUCT (p. 427)**
 - A. The Appraisal Foundation (p. 427)
 - B. Certification and Licensing (p. 429)
- IV. THE UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE (p. 430)**
 - A. General Principles (p. 432)
 - B. Standards and Standards Rules (p. 441)
 - C. Statements on Appraisal Standards (p. 441)

- D. Advisory Opinions (p. 442)
- E. Modifications of USPAP (p. 442)
- F. Introductory Provisions of the USPAP (p. 442)
- V. CHAPTER SUMMARY (p. 446)
- VI. CLASS DISCUSSION TOPICS (p. 447)
- VII. CHAPTER 14 QUIZ (p. 448)

Chapter 15: Financial Institutions and Regulations

453

- I. FINANCIAL INSTITUTIONS (p. 455)
 - A. Depository Institutions (p. 455)
 - B. Noninstitutional Lenders (p. 456)
- II. PRIMARY AND SECONDARY FINANCE MARKETS (p. 456)
- III. FIRREA (p. 456)
 - A. Resolution: Failed Savings Institutions (p. 457)
 - B. Reorganization of Federal Finance Regulators (p. 458)
 - C. Federal Finance Institutions Regulatory Agencies (FFIRA) (p. 458)
 - D. Real Estate Appraisal Reform Amendments: Title XI (p. 460)
 - E. Appraisals Covered by FIRREA (p. 463)
 - F. FFIRA Appraisal Standards (p. 464)
- IV. SECONDARY MARKET APPRAISAL REGULATIONS (p. 466)
 - A. Appraiser Qualifications (p. 467)
 - B. Unacceptable Appraisal Practices (p. 468)
- V. REPORTING REQUIREMENTS (p. 469)
 - A. Report Forms (p. 469)
 - B. Age of Appraisal Report (p. 469)
 - C. Required Attachments (p. 469)
 - D. Completion Certificates (p. 470)
 - E. Selection of Comparable Properties (p. 470)
- VI. OTHER APPRAISAL-RELATED INTERNET SITES (p. 472)
- VII. CHAPTER SUMMARY (p. 473)
- VIII. CLASS DISCUSSION TOPICS (p. 475)
- IX. CHAPTER 15 QUIZ (p. 476)

Appendix 1	481
Appendix 2	487
Appendix 3	495
Appendix 4	503
Glossary	509
Index	515
Great Books From ETC	528