

FIN 353 Appraisal Project Whitepaper Guideline

List of files on Canvas-Read Before Writing Your Report!!!

“Sales Comparison Approach”

“Zillow Comps”

“Appraisal Example FIN 353”

“Appraisal Example Full Solution”

Everyone will prepare *an appraisal report* on one subject residential real estate property (NOT a new construction) in FIN 353. The report carries 20 points out of total 100 points of your grade. Everyone needs to submit an appraisal report for the residential real estate property, covering all the relevant issues appropriate to the assigned subject property. The report should present a thorough discussion and analysis of the valuation for the assigned subject project based on **sales comparison approach** (Please refer to the ppt on “Sales Comparison Approach” and the project materials after Week 7 on Canvas for more information). Your main job is to collect the information of newly listed subject property and the information of 3-4 recent sold properties similar to subject property (comparables) from the websites. Then conduct a thorough analysis of the subject property’s value using sales comparison approach. The relevant information on subject property and comparable properties could be found at the website providing information on real estate transactions. It is free access for everyone. You could learn about the recent listings and recent sales for any place you are interested through these websites. The most frequently used website are the following websites:

- **Google: “## City Home for sale”**
- **Zillow**
- **Ziprealty**
- **Realtor.com**
- **Trulia**

- Redfin

Sales comparison approach

- Principal
 - Substitution principle
 - One price rule – equivalent goods tend to sell for equivalent prices
- Approach
 - Identify sales of similar properties
 - Adjust sale prices to reflect differences from the subject property
 - Typical adjustments include sales date, size, age, condition, location, amenities and key features

Subject property: You may choose four bedrooms or five bedrooms single family property as the subject property of appraisal at a city with active housing market. An active housing market means there are a lot of transactions going on. This property should be a property currently listed for sale. The newly listed subject property should have a time on market (TOM)¹ less than 3 months. If a property has been listed on the market for fairly long time without a sale, there may be some hidden problem with the property, or the listed price is not set well. The new listings information could be found in all the major websites for real estate transactions. Do NOT use listing for new construction as your subject property, which is not a good choice for practicing the sales comparison approach.

Selection of Comparables: It is very important to select good comparables. The more similar the comparables relative to the subject property, the less adjustment you do and the more accurate is

¹ **Time on Market** (TOM, alternatively marketing time or days on market) is a measurement of the age of a real estate listing. It is the difference between the listing date of a property and the date of sale (the date of your estimate in this case).

your estimate. You may refer to the file “Zillow Comps” on Titanium for more information of selecting comparables.

- Geographically closer is better
 - Same neighborhood or similar neighborhood (zip code, neighborhood level)
 - Same “market area” – if not enough comparables in the same neighborhood
- Physically similar is better
 - Size & design, Lot size, Age, etc.
- Most recent sales better, possible values change w/time
 - Residential within recent 3-6 months
 - Time on market - within reasonable range
- How many Comps are enough?
 - 3 - 4 is the norm, “any new insights from the next best comp?”
- Use of “Listings”
 - *Not preferred*
 - Tends to set an upper limit; Requires adjustment
 - Not accepted under certain circumstances

Formatting: The report should be approximately 15-20 pages, double-spaced, 12-point font.

Although there are not rigid formatting requirements, please see The Business Writer’s Handbook for helpful formatting suggestions. At minimum, the report must include:

(1) a Title page,

(2) a Table of Contents,

(3) an Executive Summary [a ½ to ¾ page overall summary of the points raised in the paper],

(4) an Introduction—setting out the material to be examined in the paper,

(5) a Discussion and Analysis section (including the excel table of adjustment),

(6) a Conclusions section, and

(7) a Works Cited section, listing all secondary sources consulted in preparing the report.

Due Date:

Two files need to be submitted via Canvas under the link of Week 16 before the due date: A digital copy of report and an excel file for the tables of adjustments.

Name your digital copy attachments and email title as:

FIN353 Report_StudentName_City of Subject Property

FIN 353 Appraisal Project White Paper

On

Single Family Residence

At (Address)

City, State, Zip

PREPARED FOR

(FIN 353 course)

(California State University, Fullerton)

(2550 Nutwood Ave)

(Fullerton, CA 92831)

PREPARED BY

(Student's Name)

DATE OF REPORT

(Date)

Key information to be included in part 5 discussion:

Property Information

Property Type: Residential Single Family

Property Address²:

Real Property Interest: Fee Simple

Type of Value: Market Value

Intended Use: Sell

Intended User: Seller

Time on Market³:

Property Attributes

Age (year built)

Building Size (square footage)

Rooms (?BR/?Bath)

Garage (size)

Design (One story, two-story, etc)

² a permanent and absolute tenure of an estate in land with freedom to dispose of it at will, especially in full **fee simple absolute** a freehold tenure, which is the main type of land ownership.

³ **Time on Market** (TOM, alternatively marketing time or days on market) is a measurement of the age of a real estate listing. It is the difference between the listing date of a property and the date of sale (the date of your estimate in this case).

Upgrade

List of repairs & estimated cost

Subject history (the date and price of previous sales for the subject property if there is any. It is available on these websites listed earlier as well.)

Neighborhood Information

Neighborhood Analysis

Neighborhood Price Trend (search online)

County Level

City Level

Zip code level

Neighborhood Level

Local Amenities

such as distance to park, mall, grocery stores, major amenities nearby, etc School District

(Ratings, etc)

Local and Regional Market Information

Pictures of the subject property

(Professional pictures of listings are usually available on these websites listed earlier. The listing agents use these pictures to give potential buyers a good idea of the current condition of a listing.)

Exterior Pictures

Such as External view of the property, backyard, pool, patio, etc

Interior Pictures

Major indoor areas such as living room, kitchen, dinning room, master bedroom, bathroom, etc

Information of Comparable properties

The detailed information of comparables properties could be listed within a table. You may also provide one external picture of each comparable to give the readers a rough idea of each comparable. See the table of comparison from the appraisal example in the following session for an example.

Adjustments process

- Identify sales of similar properties
- Adjust sale prices to reflect differences from the subject property
- Typical adjustments include sales date, size, age, condition, location, amenities and key features

The key idea is

-to adjust the comparable as similar as the subject property, in terms of sale time (market condition), physical characteristics, etc.

-and get the adjusted price from each comparable as a proxy for the estimate of subject property.

-then draw your conclusion of the price of subject property

(you could average all the estimates from comparables or assigning different weights on each estimate. For instance, you could give more weights on the adjusted price of comparables which are more similar to the subject property and less weights on the adjusted price of comparables which are less similar to the subject property)

Important Notes:

Given the specific city where your subject property is located, you need justify the number of adjustments for each change in your table. You may search the following information online:

cost of pool

cost of additional bedroom/bathroom

cost of additional patio/pool/wooddeck or another attribute

housing price appreciation rate in local market

value of incremental square footage of lot size/living area in the local city

DO NOT use the assumptions of various adjustment costs in the appraisal example directly on your report. Research on the adjustments costs are an important part of this project.

Final Consolidation

Derive your final estimate of subject property based on the Indication values from each comparable. Just the weights you give to each comparable in your report.

The Appraisal Example for Adjustments

The following appraisal example provides details on how to adjust between comparables and subject property. You may apply similar approach in your report, with the information of subject property and comparables collected by yourself.

Class Example: The Appraisal Example

You are appraising a single-family residence located in the Huntington neighborhood at 4632 NW 56th Drive. The property is being acquired by a mortgage applicant and you have been asked to appraise the property by the lender. Seven potential comparable sales were initially identified. However, three of these seven were highly similar to the subject property in their transactional, physical and locational characteristics. You therefore decided to exclude the other four transactions from the comparable set.

The elements of comparison you used to compare and adjust the sale prices of the comparable properties are listed in the market data grid below. The property rights being conveyed in the acquisition of the subject property are fee-simple absolute. Conventional mortgage financing will be used by the purchaser and the acquisition appears to be an arm's length transition. Thus, no adjustments need to be made to the sale prices of the comparable properties for the type of property rights conveyed, financing terms, or conditions of sale. However, the buyer of comparable 2 was aware that she would have to replace one of the air conditioning units immediately after acquiring the property; thus, she was able to negotiate a \$3,000 price reduction from the seller.

Comparable 1 sold three months ago, while comparables 2 and 3 sold six months ago. Based on your knowledge of recent price appreciation in this market, you have decided that comparable 1 would sell for 2 percent more if sold today and that comparables 2 and 3 would sell for 4 percent more if sold today. The subject property is located in Huntington, as is comparable 1. However, comparables 2 and 3 are located in Kensington and Millhoper, respectively. Although Huntington is a high-end neighborhood, both Kensington and Millhoper are generally considered to be slightly more desirable. In fact, homes in these two neighborhoods generally sell for about a 3 percent price premium relative to similar homes in Huntington.

In these neighborhoods, an incremental square foot of lot size or living area is worth about \$20 per square foot and \$80 per square foot respectively. Each year of effective age reduces the value of properties in this market by about \$3,000 per year. Your experience suggests that each additional half-bath is worth \$500; each additional full bath \$1,000. Additional garage spaces, wood decks, and pools in these neighborhoods are worth \$8,000, \$1,000, and \$12,000, respectively. No significant non-realty items were included in the comparable transactions and non-realty items are not part of the acquisition of the subject property.

Based on the above discussion of the elements of comparison, complete an adjustment grid for the three comparable properties. What is the final adjusted price (indication of the subject's value) for comparable 1, 2, and 3?

Table of comparison

Sales Comparison Approach: Market Data Grid for 4632 NW 56th Drive

| Elements of Comparison | Subject | Comp Sale 1 | Comp Sale 2 | Comp Sale 3 |
|------------------------------------|---------------------|-----------------------------|-----------------------------|-----------------------------|
| Sale price of comparable | | \$510,000 | \$525,000 | \$499,000 |
| <i>Transaction characteristics</i> | | | | |
| Property rights conveyed | Fee simple | Same | Same | Same |
| Financing terms | Conventional | Same | Same | Same |
| Conditions of sale | Arm's length | Same | Same | Same |
| Expenditures immed. after purchase | | None | \$3,000 | None |
| Market conditions | Today | 3 mos. ago: add 2% total | 6 mos. ago: add 4% total | 6 mos. Ago: add 4% total |
| <i>Property characteristics</i> | | | | |
| Location | Huntington | Huntington | Kensington | Millhoper |
| <i>Physical characteristics:</i> | | | | |
| Site/lot size | 6,662 sq. ft. | 6,700 sq. ft. | 6,800 sq. ft. | 6,600 sq. ft. |
| Construction quality | Typical | Typical | Typical | Typical |
| Condition | Average | Average | Average | Average |
| Effective age | 5.5 years | 7 years | 8 years | 10 years |
| Living area | 3,473 sq. ft. | 3,920 sq. ft. | 3,985 sq. ft. | 3,835 sq. ft. |
| Number of baths | 3.0 baths | 3.5 baths | 3.0 baths | 2.0 baths |
| Garage Spaces | 2-car | 2-car | 2-car | 1-car |
| Porch, patio, deck | Cov porch/wood deck | Cov. Porch | Cov. Porch | Cov. Porch |
| Fence, pool, etc. | None | None | Pool | Pool |
| Economics characteristics | N.A. | N.A. | N.A. | N.A. |
| Use | Single-family | Same | Same | Same |
| Non-realty components | None | None | None | None |

The adjustment is in the excel file "Appraisal Example Full Solution" and an video on Canvas