

Market Analysis

Page 5 of the Module II Outline

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A. Analysis Purpose and Function

- Purpose of a Comparative Market Analysis (CMA) is to establish value on a property, typically when it is being listed for sale.

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B. Market Analysis vs. Appraisal

- A CMA is prepared by a licensee, compiled from research of the marketplace of primarily similar properties that have been sold and includes properties currently for sale.

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Market Analysis vs. Appraisal

- An appraisal is an estimate or opinion of value based on supportable evidence and approved methods.
- An appraiser is an independent person trained to provide an *unbiased* estimate of value.
- Appraisers must be licensed or certified according to state law.

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C. Regulation of Appraisal Activities

- Licensed or Certified Appraisers
 - Licensed – residential only with value limitations
 - Certified – 2 types, residential and general with no value limits
- Broker Price Opinions
 - Broker’s price opinion means “a written price opinion of the estimated price for identified real property that is prepared by a real estate broker or associate broker licensed under [chapter 20, title 54](#), Idaho Code”

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Broker Price Opinions (BPOs)

Any licensee may give an opinion of value *for the purpose of a prospective listing or sale*, provided they do not represent themselves as a appraiser.

In order to do a BPO, you **MUST** be a broker or associate broker.

- BPO Requirements.....

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Broker Price Opinions (BPOs)

- The broker's price opinion shall be in writing and contain (among other things) the following:
 - (viii) A disclaimer that the broker's price opinion is not intended to be an appraisal of the market value of the property, and that if an appraisal is desired, the services of a licensed or certified appraiser should be obtained.

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D. Elements of Value

- To have value in the real estate a property must have the following characteristics: (D.U.S.T.)
 - Demand with purchasing power – the need or desire for possession
 - Utility – the property's usefulness
 - Scarcity – a finite supply
 - Transferability – ease of transfer of ownership rights

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Market Value

- *Is the most probable price that a property should bring in a fair sale*

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Market Value vs. Market Price vs. Cost

- Market Value is an opinion of value based on an analysis of data
- Market Price is what a property *actually sells for*
- Cost is the construction cost to build
 - MISCONCEPTION: Cost does not represent market value

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E. Basic Economic Principles of Value

- **A. Principle of Conformity** - value is created when a property is in harmony with its surroundings
- **B. Principle of Contribution** - the value of any part of a property is measured by its effect on the value of the whole
- **C. Principle of Regression and Progression** - increasing and decreasing returns

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Basic Principles of Value

- Regression – o O o
- Progression – O o O
- Substitution – the maximum value of a property tends to be set by how much it would cost to purchase an equally desirable and valuable substitute property.

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Basic Principles of Value

- Anticipation – value is created by the *expectation* that certain events will occur
- Change – no physical or economic condition remains constant
- Competition - interaction of supply and demand.....

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Basic Principles of Value

- **Principle of Highest and Best Use** – The most valuable or profitable use to which a property may be utilized
 - The use must be:
 - Physically possible
 - Legally permissible
 - Economically feasible
 - Most profitable use

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F. Forces Influencing Value

1. Physical Forces
2. Economic Forces
3. Social Forces
4. Political Forces

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3 Approaches to Value

- The Cost Approach
- The Income Approach
- The Sales Comparison Approach (or Market Data Approach)

Let's take a look at each one:

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G. The Cost Approach

- You must identify how much the property has depreciated!
- Estimate of cost new
 - a. Reproduction
 - The current cost of a **duplicate** of the subject property, including both the benefits and the negative features of the property
 - b. Replacement
 - the current cost of improvements with utility or function **similar** to the subject property

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H. Methods of Calculating Cost New

- Estimate the *value of the land (market value) - set aside; then:*
- Estimate the *current cost of construction*
 - Reproduction cost (exact) or Replacement cost (similar)
- Estimate and deduction for **depreciation:**
 - A. **Definition: A loss in value due to any cause; any condition which adversely affects the value of an improvement**
 - B. *Physical Deterioration* – deferred maintenance (painting)
 - C. *Functional Obsolescence* – design features (old plumbing)
 - D. *External or Economic Obsolescence* – environment, social, economic (polluting factory)
- *Deduct* the accrued depreciation
- *Add* the estimated land value

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Gross Rent Multipliers

- Typically used in 1-4 residential units
- Computed by:
Sales Price / Gross
Monthly Rent = GRM

\$84,000	\$750	112
\$94,000	\$775	121
\$110,000	\$825	133
Average	-----	122
\$96,000	\$783	122

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Gross Income Multipliers (GIM)

- Typically used for commercial income Units
- Sales price/annual gross income = Gross Income Multiplier (GIM)

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Capitalization of Income

- What is it?
–Capitalization is used to determine the value of future income

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Capitalization Rates/Net Operating Income

Definitions:

- Cap Rate = Investor's desired rate of return on investment
- Net Operating Income = Investor's net income after expenses

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The Income Approach

- Use Table 18.3 on page 332 of Yellow Textbook to observe an example of using a Cap Rate to determine value

\$31,176 in NOI (Net Operating Income)

Divided by Boise's investors current typical cap rate of 8.0%

Equals the market value of \$ _____? Capitalization Rate

- If the desired return on and of your investment is 6%, then a building that delivers net income of \$17,000 annually is worth \$283,333.
- $17000 / .06 = 283333$

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J. Final Correlation or Reconciliation of Value

- The art of analyzing and effectively weighing the findings from the three approaches.
- An appraiser provides explanation of how he/she arrives at the final value.

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K. The Sales Comparison Approach (Market Data Approach)

- Considered the Most Reliable
- An estimate obtained by comparing the property being appraised with recently sold *comparable properties*.
- Types of information required when comparing:
 - A. Date of Sale
 - B. Location, amenities and physical features
 - C. Financing concessions
 - D. Economic condition, property rights

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Sales Comparison Approach (Market Data Approach)

- Number of comparables
- Adjustment process
- Strengths
- Weaknesses
- Final estimate by market approach

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Most Comprehensive Appraisal?

**“A written narrative would
be the most comprehensive
appraisal”**

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Exercises – Page 9 of Outline

- Section 1: Locating Comparables
- Section 2: Working with Comparables

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