

Introduction to Property Valuation

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(A concise guide for students, new appraisers, and anyone interested in understanding how real estate values are determined.)

1. What Is Property Valuation?

Aspect	Description
Definition	The process of estimating the monetary worth of real estate (land, buildings, improvements) at a specific point in time.
Purpose	• Buying / selling decisions • Mortgage financing • Tax assessment • Insurance coverage • Litigation & divorce settlements • Investment analysis
Key Principle	Value = Benefits – Costs – the price a typical, willing buyer would pay to a typical, willing seller in an arm’s length transaction.

2. Core Valuation Concepts

Concept	Meaning	Practical Implication
Market Value	Most probable price under normal market conditions.	Used for most appraisal reports.
Assessed Value	Value assigned by a tax authority for property tax purposes.	Often a percentage of market value.
Investment Value	Value to a particular investor based on personal goals.	May differ from market value.
Intrinsic Value	Value derived from the property’s fundamental attributes (e.g., income potential).	Basis for income approaches.
Highest and Best Use (HBU)	The legally permissible, physically possible, financially feasible, and maximally productive use of the property.	Drives the selection of comparable sales and income projections.

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3. Major Valuation Approaches

Approach	When It's Used	Main Data Needed	Typical Formula
Sales Comparison (Market) Approach	Residential, vacant land, and most commercial properties where sufficient recent sales exist.	• Recent sales of comparable properties (comps) • Adjustments for location, size, condition, amenities	Adjusted Sale Price of each comp ? Weighted average
Cost Approach	New construction, special? purpose properties, or when improvements are unique.	• Current cost to reproduce/replace the structure • Depreciation estimates • Land value	Value = Replacement Cost – Depreciation + Land Value
Income (Capitalization) Approach	Income?producing assets (apartments, offices, retail, industrial).	• Net operating income (NOI) • Capitalization rate (cap rate) or discount rate • Vacancy & expense assumptions	Value = NOI ÷ Capitalization Rate (or discounted cash?flow model)

Most professional appraisals combine the three approaches and reconcile them into a single opinion of value.

4. Steps in a Typical Valuation Process

1. Define the Assignment

- Identify the client, purpose, property type, and required value (market, insured, etc.).

2. Gather Property Data

- Legal description, title, zoning, physical condition, floor plans, photographs.

3. Analyze the Market

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- Economic trends, supply/demand, demographic data, interest rates.

4. Determine Highest & Best Use

- Test alternative uses; select the one that yields the highest value.

5. Select Appropriate Approach(es)

- Based on property type, data availability, and client needs.

6. Collect Comparable Data

- Recent sales, rental rates, construction costs, market cap rates.

7. **