

## Chapter 18

### Answer Key

1. b. The income approach would be used to estimate the value of income producing properties such as office buildings. (346)
2. b. Closely-spaced internal support columns could not be moved without comprising the structural integrity of the building; therefore its cost to cure would be more than the resulting increase of the building value. (345)
3. c. To have value, there must be monetary worth. Obsolescence is not a desirable trait and therefore is part of the lack of desirability of the property. (345)
4. b. Effective gross income is the result of all incomes minus any losses due to vacancy, bad checks, etc.: \$20,000 (potential gross income) +\$700 (other income) - \$1,000 (vacancies at 5% (.05) = \$19,700 (346)
5. d. The appraiser does not make or determine value. After the appraiser completes his/her analysis and considers all the data he/she will then provide an estimate of value. (330)
6. b. The term depreciation refers to the loss of value in real estate from any cause either on the property or off the property or a combination thereof. (344)
7. b. After considering all the possible legal uses for the property, the appraiser will estimate his value on the highest and best use of the property even though it is currently not being used as such. (340)
8. b. External depreciation is caused by factors not on the subject property such as poorly maintained properties in the neighborhood. (345)
9. b. One of the components of the Cost approach is the calculation of depreciation caused by wear and tear, functionality of items, or outside influences. (343)
10. d. Capitalization is a method of estimating today, the future value of an income stream. (346)
11. b. The income approach would carry the most weight. The income approach is the primary approach in valuing the income stream produced by the apartment complex. (346)

12. b. The cost approach is used to estimate the replacement or reproduction cost of the building. Estimated replacement or reproduction cost less accrued depreciation plus estimated land value equals the estimated value by the cost approach. The other factors, owner purchase cost, sales similar of buildings or assessed value are not used in the cost approach. (343)
13. a. Although a new residence requires the sales comparison approach to be used when applying for mortgages, existing residence also require the use of the sales comparison approach. While both are correct the existing residence answer may be more correct since the new residence can also use the cost approach for close support. The cost approach for an existing residence is not as reliable as it is for the new residence with no depreciation. (342)
14. b. The income approach to value is based on the present value of the rights to future income. The capitalization rate is applied to the property's annual net operating income to arrive at the estimate of the property's value. (347)
15. c. Property that is sold involuntarily, i.e. foreclosure, tax sale, etc, tends to sell for less than market value. Adjustments to sales over six months ago, properties in similar neighborhoods, and properties with larger or smaller amenities can be adjusted for. (342)
16. b. The cost approach requires a separate estimated value for the land. Estimated replacement or reproduction cost less accrued depreciation plus estimated land value equals the estimated value by the cost approach. (342)
17. d. Reconciliation is analyzing the results obtained from the three approaches to value and deciding how much weight to give to each approach. A final value is estimated from the results of the analysis and judgment of the appraiser. (348)
18. b. The income would be calculated by multiplying the income from the 4 apartments based on a year. 65% of that sum would be the NOI. NOI divided by the value of the building would provide a Capitalization Rate. The calculation would be  $\$470 \times 4 \times 12 \times 65\%$  divided by  $\$215,000$  that would provide a result of 6.8 percent cap rate. (346)
19. c. The opinions of a seller as to value could be based on emotion rather than objective reasoning. The appraiser would not use this step. (331)
20. d. The Gross Rent Multiplier considers the relationship of Gross Sales Price to Gross monthly rent. The resulting GRM can then be applied to the

estimated fair market rental of the subject property to arrive at its market value. (348)

21. b. Physical Deterioration is the loss of value based on the physical wear and tear on the property. It can be broken down into Curable and incurable depreciation. (345)
22. c. The Net Operating Income is divided by the Capitalization Rate. Given any two elements, the third can easily be estimated. (347)
23. b. The listed price of the price is not germane to the estimate of Value. Highest and best, most probable price the parcel will bring and physical dimensions of the parcel are all applicable to the analysis. (331)
24. b. The appraiser is most concerned with the income generated by the property as being the greatest factor in valuation process. (346)
25. d. External depreciation occurs when an outside influence, such as a law requiring retrofitting for fire sprinkles, causes a resultant loss in value. The cost of retrofitting would be the value of the external depreciation. (345)
26. d. Economic life is the period of time a property will remain useful for its original life. (346)
27. b. Specific data include sales, income, and expenses of properties similar to and competitive with the subject property as well as subject property. Employment opportunities would be considered general data. (331)
28. a. Loss of value due to uncollected delinquent rent would be used in the Income Approach and not in the cost approach. (346)
29. a. Market price of a parcel of real estate is the price that it actually sells for, the sales price. (339)
30. c. Reconciliation is the process used by the appraiser in determining how much weight should be given to each of the three approaches to value, if any. After considering all the data the appraiser will estimate a final indication of value. (348).
31. a. The income approach would be used on income producing property such as an office if the entire mansion is used as such. Should the mansion have other uses along with the insurance company, than multiple approaches may be appropriate. (346)
32. a. Outmoded, although functional, design features that are no longer considered desirable would be considered functional obsolescence. (345)

- 33. b. A Kitchen adjacent to the master bedroom is considered functionally obsolete. The Kitchen could be converted to a family room provided there was adequate space in the house for the kitchen elsewhere. This would be considered curable obsolescence if the cost did not exceed the increased value of the property. (345)
- 34. c. The building's replacement cost is an essential component of the cost approach along with depreciation and land value. (343)
- 35. a. In an appraisal, the appraiser estimates the value of the property, which could be market value, book value, insurance value, tax value, etc. (330)
- 36. c. Debt service is not included in calculating net operating income. It is used in the calculation of the Debt Coverage Ratio. NOI divided by the Debt Service equals the Debt Coverage Ratio. (346)