

RE 614 – Real Estate Appraisal
Fall 2008

Homework 4 – Sales Comparison Approach – Due Oct. 9

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TTh 9:30-10:45

- 1) You must estimate the market value of a subject property with the following characteristics:

The subject is a ranch style home with three bedrooms, two full bathrooms, and no half bathrooms. It has 1,157 sf of total finished living area, all of which is above grade. The full basement is unfinished, so there is no “rec room” space either. It has a 480 sf attached garage and sits on a 6,981 sf lot.

The home is 9 years old. It is of average construction (a construction grade of “C”) and the utility of the location is “AV” or average. It is located on a typical residential street (not on a cul-de-sac or on a major street) in “neighborhood 4.” The lot does not front or have a view of any water features.

The primary floor covering in the house is carpet and it has drywall on the walls. It has wood frame exterior walls and an asphalt shingle roof. The home has central heat and air (the heat is forced air fueled by natural gas). There is no attic space in the home. The home has two additional plumbing fixtures beyond those required for the two bathrooms.

You have been asked to appraise the property based on a sale date in January 2007.

- a) Begin by identifying at least comparables for the subject property. To do this, download the RE641_Sales_Comparison_Data.xls file from the class website. Sort the data on the “All Sales” tab to find properties with the same characteristics as your subject property. You might want to use the highlight feature to “mark off” properties that are not like your subject. When identifying comparables, keep the following suggestions in mind.
- You might find it helpful to add a row with your subject’s information.
 - You should first look for comparables in the same neighborhood; only look in other neighborhoods if you can’t find good matches in the subject’s same neighborhood.
 - Sort by the most important or hardest to match characteristics first. Then sort on secondary characteristics to isolate comparables.
 - Be aware of potential comparables that have sale prices that differ a great deal from other comparables. Remember, despite all the information you have about these properties, there is much that you may not observe.
- b) Lay out your subject in a sales comparison grid like that shown in Table 6-2 on page 92 of your text. You must decide which characteristics should be included on this table.

c) Estimate the adjustment factors that will be needed based on the differences between your comparables and the subject property. In doing so, keep the following points in mind.

- You may need to do a matched pairs analysis on other sales (not used as comparables) to identify these adjustment factors.
- On adjustment you will need to make is for time of sale. You can get some information on the appreciation rates in the Wichita area from the Center for Real Estate website at <http://realestate.wichita.edu>. Look for the WSU Home Price Index. FYI, the subject property is located in Sector 1 (West Wichita).

I suggest, however, that you also do some repeat sales analysis in the subject neighborhood to confirm any average figures you get from the website. To do this, sort the data by Month and then by ID. Repeat sales will then appear side-by-side. Calculate the percentage change in the sale price between the first and second sale and then calculate the monthly appreciation rate based on the time between the sales. You can then calculate the average monthly appreciation rate for the all the repeat sales in the neighborhood.

Two things to note on this approach. First, be on the alert for possible “flips.” If someone buys a distressed house, fixes it up, and then sells it, the change in the sale price reflects the value added by the “flipper,” not normal market appreciation. If you see any that look out of line, drop them. Second, properties that sell multiple times tend to appreciate faster than the market as a whole. As a result, your final estimated appreciation rate should probably be on the low end of the calculated appreciation rates from your repeat sales.

- For all of your calculated adjustments, explain how you came up with your adjustment factor.
- d) Complete a Sales Adjustment Grid like the one found in Table 6-3 on page 93 of your text.
- e) Estimate the indicated value of the subject property based on the adjusted prices of each of your comparables. Explain how you came to your final value determination.

As always, make sure you turn in a work product that is neat and professional in appearance.