

- 2) Consider a property that can be zoned for either retail or office uses. The current use of the property is a single-family residence valued at \$150,000.

Relevant information about the three possible uses is provided in the table below:

| | Current Use <u>SF Home</u> | <u>Retail</u> | <u>Office Bldg.</u> |
|-------------------|-------------------------------|---------------|---------------------|
| Construction cost | \$125,000 | \$550,000 | \$975,000 |
| NOI | N/A | \$80,000 | \$92,000 |
| Market cap rate | N/A | 10% | 8.5% |
| Market value | \$150,000 | | |

- a) Calculate the highest-and-best use of this site as though vacant.

- b) Under the current use (single-family residence), what is the total value of the property, the value of the building and the value of the land?

- c) Suppose that it would cost \$50,000 to demolish the existing house and prepare the site for new construction. What is the highest-and-best use of the site as currently improved? Explain your answer.

- 3) Our textbook states that the appraisal process is a “mix of results and process.” Explain in your own words what is meant by the term “results” and what is meant by the term “process.” Use an example to show how the two work together in appraisals.

4) “Being close to an airport has a negative effect on property values.” Comment.