

I. APPRAISAL OF REAL ESTATE

A. Three Approaches To Value

1. Cost Approach

- i. Estimate site value, as if vacant
- ii. Estimate replacement cost new or reproduction cost new of the improvement
- iii. Deduct the amount of accrued depreciation (loss of utility and hence value from any cause)
- iv. Add the current depreciated reproduction or replacement cost of all improvements to the estimated land value

2. Income Approach

- i. Estimate of gross income from market data
- ii. Analysis and estimate of operating expense
- iii. Estimate of net income
- iv. Selection of appropriate capitalization method, technique and rate structure
- v. Computation of value (income divided by rate equals value) $V = I/R$

3. Comparative Sales Approach (Or Market Approach)

- i. Discovering and analyzing data
- ii. Select appropriate unit of comparison
- iii. Make reasonable adjustment based on market
- iv. Apply the data to the subject of appraisal
- v. Principle of substitution