SEPTEMBER 26, 2013

# APB VALUATION ADVISORY 4: IDENTIFYING COMPARABLE PROPERTIES

APPRAISAL PRACTICES BOARD

THE APPRAISAL FOUNDATION

*Authorized by Congress as the Source of Appraisal Standards and Appraiser Qualifications*

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# Revised APB Valuation Advisory #4

## *Identifying Comparable Properties*

**This communication is for the purpose of issuing guidance on recognized valuation methods and techniques. Compliance with such guidance is voluntary, unless mandated through applicable law, regulation, or policy.**

**Important Note: This revised APB Advisory #4 is being issued to make edits to a Supreme Court Case citation on page 9 for the *Mississippi & Rum River Boom Co. v. Patterson, 98 U. S. 403 (1878)*. Additional edits were made to add complete text titles and correct page references in the Glossary of Terms and Definitions beginning on page 13.**

**Date Issued: September 26, 2013**

**Application: Residential and Non-residential Real Property**

**Issue: As part of its ongoing responsibilities, the APB is tasked with identifying where appraisers and appraisal users believe additional guidance is required. One such issue identified by the APB is identifying comparable properties.** Comparability analysis is a fundamental study in determining property value. This analysis involves a side-by-side examination of physical and transaction characteristics of the identified comparable properties relative to the subject. The reliability of this valuation technique relies heavily on the proper selection of suitable comparable properties.

This guidance discusses the terms and definitions associated with a comparable property, the characteristics generally considered for determining comparability; and the degree of suitability of a property as a comparable.

The guidance addresses whether there is a threshold of differences, which based on their magnitude, automatically disqualifies a property as comparable.

The guidance examines a closely related topic; the differences between the terms, "market area" and "neighborhood" and a broad summary of the characteristics to consider for delineating a market area.

With regard to the use of "distress sales" (e.g., short sales, foreclosures) please see APB Valuation Advisory #3, *Residential Appraising in a Declining Market*. The Board is also considering developing guidance on the valuation of new residential construction.

**Subject Matter Experts**: The Appraisal Practices Board and The Appraisal Foundation wish to express our sincere gratitude to each of the following Subject Matter Experts for volunteering their time and expertise in contributing to this document:

| | |
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# *Identifying Comparable Properties*

## TABLE OF CONTENTS

# *Identifying Comparable Properties*

## I. Introduction

Real property valuation considers three approaches to value which are distinctly different given their underlying foundational premises. However, all three approaches rely on a comparability analysis in developing credible results under each approach. The Sales Comparison Approach provides an indication of value based on units of comparison derived from sales of similar or comparable properties. The Cost Approach requires land value comparability analysis, cost comparability analysis, and market extracted depreciation comparability. The Income Approach requires income/lease comparability, expense comparability, income potential comparability, capitalization rate, and minimum acceptable rate of return on investment comparability. All of the above approaches rely on the same fundamental underpinnings of determining "comparability."

Therefore the identification of what constitutes a similar, or "comparable property" is critical to the proper application of the three approaches to value. In this Advisory we will provide guidance to assist in the identification of comparable properties.

## II. Property Characteristics

The principle of substitution is the foundation of comparability. It states that a rational buyer will not pay more for an item than the cost of an acceptable substitute.[1] The appraiser must analyze transactions of closed sales, pending sales, and listings of properties and determine which are acceptable substitutes by weighing the elements of comparison. In developing an opinion of value for the subject property, the appraiser attempts to answer the question "What would a buyer of the comparable property have paid for the subject property given the observed sale price (or asking price, in the case of a listing) for the comparable property?"

Generally speaking, the more similar a competing property is to the subject property, the better. A high degree of similarity in property characteristics between the subject property and the available properties improves comparability. Many courts recognize "...that 'similar' does not mean 'identical,' but means having a resemblance, and that property may be similar in the sense in which the word is here used though each possesses various points of difference."[2]

The appraiser weighs the relevance of the property characteristics (including, but not limited to: location, economic, legal and physical factors) based on the importance assigned by market participants. The most relevant property characteristic(s) are then examined on each available property. By examining and weighing the relevant property characteristics, the appraiser is better prepared to select the most appropriate comparable properties available. Another court has defined a comparable property as one that "Has similar use, function, and utility; is influenced by

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[1] Adapted from *The Appraisal of Real Estate*, 13th Ed., pp. 38-39.
[2] *City of Chicago v. Vaccaro*, 97 N.E.2d 766, (Ill. 1951).

the same set of economic trends and physical, governmental, and social factors; and has the potential of a similar highest and best use."[3]

Because real property is truly unique, there are always differences between the property under analysis and the selected competing properties used for comparative purposes. When considering a property as a comparable, the appraiser should first ask "Is the property sufficiently similar, in all fundamental aspects to the subject property?" This leads to the critical analysis of evaluating the property characteristics that make a property sufficiently similar. The following chart below summarizes the primary elements of comparison:

| ***Elements of Comparison*** | ***Description*** |
| --- | --- |
| Location (Market Area) Aspects | Other than market conditions at the time of sale, location is the most distinctive element of property analysis. Would a potential buyer of the subject consider the comparable property as a potential substitute given its location within the market area? |
| Economic Aspects | Economic aspects include seller concessions, buyer's expected expenditures after sale, financing considerations to reflect "cash-equivalent" pricing. In lease comparability, economic aspects might include reimbursement terms, landlord amortization of tenant improvements, etc.<br><br>Also, includes market conditions: especially time, which is an element of all property analysis. Did the comparable transaction occur under similar market conditions as the subject property's date of analysis? What are the driving elements which differ and contribute to the adjustments necessary to infer pricing within the current market? |
| Legal Aspects | Comparability of property title and occupancy tenure, generally expressed as "interest appraised"<br><br>Highest and Best Use: significant effort should be given to compare similar transactions based on the subject property's highest and best use. |
| Physical Aspects | Each type of real estate (residential and non-residential) has physical characteristics which are desired or required by buyers. Different market areas demonstrate different buyer preferences with respect to cost/value of physical property characteristics. An exhaustive list could be compiled considering all of the various physical elements by asset class which might be measured and compared. What is significant to the analysis are those elements that contribute to measurable price differences in the market. A summary listing of typical major physical elements of comparison by asset class is provided as a supplement to this table. |

[3] Montana Code Annotated 2011, 15-1-101, retrieved from http://data.opi.mt..gov/bills/mca/15/1/15-1-101.htm on 08/26/2012.

## III. Comparable Suitability

*Sales information*[4]: Before a property can be considered a comparable, the appraiser must confirm the type of sale transaction. In other words, did the sale occur under conditions commensurate with the type and definition of value under consideration? “n the case of *market value*, the following factors must be considered:

1. Did the sale convey property rights similar to the property rights being appraised? Were the property rights similarly encumbered or unencumbered at the time of sale?
2. Were both the buyer and seller typically-motivated?
3. Were both parties well informed or advised and each acting in what they considered their own best interests?
4. Was the property allowed exposure in the open market for a reasonable length of time?
5. Was payment made in cash or its equivalent?
6. Was financing, if any, on terms generally available in the community at the time of sale and typical for the property type in its locale?
7. Did the price represent normal consideration for the property sold unaffected by special financing amounts and/or terms, services, fees, costs, or other credits incurred in the transaction?”[5]

The appraiser’s experience and skill in consistently observing the market coupled with ongoing interviews with buyers, sellers, and brokers as to what factors drive local values assist in providing credible value indications by comparison.

In addition to closed sales, knowledge of listings and pending (under contract) properties may be used to demonstrate the most current market activity and current competition considered by potential buyers. Because the final conveyance amount is unknown, listing comparables and pending sales should be used cautiously, but are often helpful: (a) in establishing the upper limit of probable value in the final reconciliation, or (b) as guidance in times of rapidly changing market conditions.

The appraiser cannot control the quality or suitability of the activity available in the market during the timeframe of analysis. Information could be limited in many markets, and many properties do not lend themselves to simplified comparison. In such cases, analysis of older transactions may also be required due to limited current activity in the market; however, such data should be cautiously considered. It is necessary for the appraiser to clearly express these limitations and to reconcile the reliability of the approach where a substantial number of the elements are sufficiently different.

*Magnitude of adjustments*: In markets where competing properties are highly similar to the subject property, it is unlikely that large and/or numerous adjustments would be required.

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[4] Sources of sales information are discussed in APB Valuation Advisory #2: *Adjusting Comparable Sales For Seller Concessions*.

[5] *Real Estate Valuation in Litigation*, 2nd Edition, pp. 204-205.

However, in markets that are less homogeneous or have limited market activity, it is possible that large and/or numerous adjustments may be necessary.

When a comparative analysis requires large and/or numerous adjustments, questions may arise regarding the true comparability of the property.

At what point is a competing property *not* considered comparable? While there is no single source to determine comparability, it is up to the appraiser within the context of the scope of work to determine whether the property is comparable and will lead to credible assignment results. Consideration of the quantity and magnitude of adjustments may assist in identifying when a property becomes suspect as a comparable; however, this does not conclusively result in such a determination. "The degree of similarity varies from case-to-case, so neither appraisers nor the courts can arrive at a formula to test comparability or similarity. In one instance adjustments totaling 15% of the sale price may indicate that the property is, in fact, not a *comparable sale*, but in another instance a sale with total adjustments equaling 15% of the sale price might turn out to be the most comparable sale available."[6]

In summary, the appraiser identifies the comparability of the property by determining whether it is a competitive substitute for the subject property. The quantity and/or magnitude of the adjustments may not dictate comparability.

Some of the most common written guidelines on this issue are the appraisal underwriting guidelines issued by Government Sponsored Enterprises (GSE) (e.g., Fannie Mae). It is important to recognize that these appraisal guidelines are written primarily to determine whether or not a property is eligible for purchase on the secondary mortgage market, and not as a definitive tool to determine comparability.

GSE guidelines also apply exclusively to residential properties, generally speaking the most homogeneous property class nationally with sufficiently similar properties transacting within the shortest period of time. It is typical to find that appraisals of non-residential properties, complex residential properties, and properties in unstable markets require the use of comparable properties that may possess greater differences.

According to Fannie Mae, a property is comparable if the market considers it a competitive substitute**.** Once a property is determined to be comparable by the appraiser, then appropriate analysis and market adjustments are applied. "Analysis and adjustments to comparable sales must be based on market data for the particular neighborhood and for competing locations – not on predetermined or assumed dollar adjustments. **Adjustments must be made without regard for the percentage or amount of the dollar adjustments.**"[7] (Bold added for emphasis.)

The key is for the appraiser to adequately explain and support the rationale for using the comparable properties selected in the appraisal report. Such narrative assists in demonstrating the reliability and credibility of the opinion of value. Where the comparable properties possess significant differences from the subject property, additional comparable properties may be included for additional support of the opinion of value.

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[6] *Real Estate Valuation in Litigation*, 2nd Edition, p. 204.

[7] https://www.efanniemae.com/sf/guides/ssg/relatedsellinginfo/appcode/pdf/appraisalguidance.pdf p.20. 08/29/2012.

Appropriate analysis, consideration, and explanations are necessary regardless of the amount of an adjustment. If numerous adjustments or a singular atypical adjustment is required, then an explanation and support (i.e., stating search criteria and results) regarding the lack of more "similar" properties that require fewer adjustments should be explained.

If the subject property has a significant element of comparison that competing properties lack or conversely, if the subject property lacks a significant element of comparison that competing properties possess, explanation is necessary. In such situations, generally recognized appraisal methodology would dictate an effort to use comparable properties that are both superior and inferior to the subject for that specific element of comparison (this process is often referred to as "bracketing"). Comparing properties with superior, similar, and inferior elements of comparison to the subject property may assist in validating the adjustments applied.

Following is an illustration of bracketing on two physical features of a residential subject property. The features bracketed in this illustration are the subject property's gross living area above grade and the garage count. This is a generalized illustration of the sales comparison analysis focusing on these two units of comparison only (highlighted in yellow).

In the following example, the subject property's gross living area (GLA) was measured at 2,200 sq. ft. The GLA feature is bracketed by comparable property # 1 that has an inferior GLA at 1,950 sq. ft. and by comparable property # 2 that has a superior GLA at 2,500 sq. ft.

Similarly, the subject's 1-car garage amenity is bracketed by comparable property # 1 that has a superior garage count of 2-cars and by comparable property # 2 that has an inferior garage amenity of no garage.

The comparable sales' inferior features in comparison to the subject property's features were adjusted upward (positive) and conversely, the comparable sales' superior features in comparison to the subject property's features were adjusted downward (negative).

| Subject | | Comp 1 | +/- $Adjustment | Comp 2 | +/- $Adjustment | Comp 3 | +/- $Adjustment |
|---|---|---|---|---|---|---|---|
| Sales Price | $183,000 | Sales Price | $ 182,000 | Sales Price | $ 180,000 | Sales Price | $ 185,000 |
| Seller Concessions | None Noted | None Noted | | None Noted | | None Noted | |
| Location | N;Res; | N;Res; | | N;Res; | | N;Res; | |
| Site Size | 10500 sf | 10500 sf | | 10500 sf | | 10500 sf | |
| View | N;Res; | N;Res; | | N;Res; | | N;Res; | |
| Quality of Construction | Average | Average | | Average | | Average | |
| Number of Bedrooms | 3 | 3 | | 3 | | 3 | |
| Number of Bathrooms | 2.1 | 2.1 | | 2.1 | | 2.1 | |
| **Above Grade GLA** | **2200** | **1950** | **7,500** | **2500** | **(9,000)** | **2090** | **3,300** |
| Basement | 1200sf0sfin | 1200sf0sfin | | 1200sf0sfin | | 1200sf0sfin | |
| **Garage** | **1 Car Garage** | **2 Car Garage** | **(5,000)** | **No Garage** | **12,000** | **2 Car Garage** | **(5,000)** |
| Adjusted Sales Price | | | $ 184,500 | | $ 183,000 | | $ 183,300 |

In this illustration, the subject's sale price of $183,000 is also bracketed by the pre-adjusted sales prices of the comparable properties ($180,000 to $185,000). Both downward and upward adjustments are applied resulting in the adjusted sale price range of $183,000 to $184,500 (the value bracket of probable range) for the subject property.

When a sales comparison approach requires substantial and varied adjustments, the reconciliation should enable the reader to understand why the sales were used. Adequate reconciliation is a required and integral part of any value conclusion. Standards Rule 1-6(a) of the *Uniform Standards of Professional Appraisal Practice*[8] states: "In developing a real property appraisal, an appraiser must reconcile the quality and quantity of data available and analyzed within the approaches used."[9]

*Highest and Best Use*: A necessary consideration for determining if a property is comparable is whether the highest and best use of the subject property and the competing property is the same. "Appraisers have a special responsibility to scrutinize the comparability of all data used in a valuation assignment. They must fully understand the concept of comparability and should avoid comparing properties with different highest and best uses, limiting their search for comparables, or selecting inappropriate factors for comparison."[10] Likewise, the Supreme Court of the Unites States in *Mississippi & Rum River Boom Co. v. Patterson*, 98 U.S. 403 (1878), states that the highest and best use of a property should consider a change in current use of a property "by reference to the uses for which the property is suitable, having regard to the existing

[8] *UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE* (USPAP) 2012-13 Edition p. U-20.
[9] Ibid
[10] *The Appraisal of Real Estate*, 13th Edition. p. 170.

business or wants of the community, or such as may be reasonably expected in the immediate future." These factors can be applied to both the subject property and the selection of comparable properties.

## IV. <u>Market Area and Neighborhood Characteristics</u>

Location is a primary consideration in the comparable property selection process. Ideally, a comparable property would compete with the subject property in location as well as other characteristics. When considering a comparable property's location competitiveness to the subject property, the subject property's local market performance and characteristics are measured alongside the comparable property's local market. Preferably, the comparable property is located in the subject property's market area.

While the terms *market area* and *neighborhood* are often used interchangeably, in truth, the two terms have distinctly different meanings, in both residential and non-residential appraising. Data and analysis related to a neighborhood is broad and general in nature, whereas data and analysis related to a market area is specific and related to a particular property type or category.[11] The confusion between these two concepts arises in practice because the method of delineation for both a market area and a neighborhood follow the same four basic principles. Both can be defined by their physical boundaries (man-made and natural) and their intangible boundaries (social and political).

Appraisers make a distinction between the neighborhood in which a property is situated and the market area in which comparable properties will be found are located. Market area is formally defined as "the geographic or location delineation of the market for a specific category of real estate, i.e., the area in which alternative, similar properties effectively compete with the subject property in the minds of probable, potential purchasers and users. In contrast, a neighborhood is defined more generally as 'a group of complementary land uses.'"[12] In other words, the neighborhood boundaries in which the subject property is located may contain residential properties as well as non-residential properties that serve the residents of the neighborhood, whereas the boundaries of the market area for the subject property is based on the area in which similar properties compete with one another. In some cases, the subject property's neighborhood and market area may have the same boundaries, but in other cases the market area may contain several neighborhoods or portions of different neighborhoods. A market area is defined by the type of property, the type of transaction (rental or sale), the geographic area in which competition exists, and the homogeneity of properties within its boundaries.[13]

The geographic area used for selecting comparable properties depends on the property type. For a large industrial property, regional or national market areas may be relevant since this is the "market" in which buyers of similar properties effectively compete. For a (non-complex) residential property, adequate sales data may be available within a few blocks of the subject property.[14] Neighborhoods tend to define the primary market area for most non-complex residential properties since homes in the area immediately surrounding a property tend to attract like-minded buyers. However, it is recognized that competitive neighborhoods within a larger

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[11] *Appraising Residential Properties*, 4th Ed., p 36, 78, and 198.
[12] Ibid.
[13] Ibid.
[14] *The Appraisal of Real Estate*, 13th Edition, p.169

market area might need to be considered. Care should be taken to analyze and align the specific neighborhood characteristics to ensure they are truly competitive.

*How a market area and neighborhood may be the same or differ:* A subdivision comprised of tract housing of similar general design and covering ten square blocks may be a 'neighborhood' and the 'market area' if there are no other similar developments nearby. However, a 'market area' may also encompass other subdivisions that are suitable alternatives and draw from the same buyer pool as the subject, even if they are across town. The buyer pool ultimately defines the market area; if buyers consider the neighborhoods to have similar appeal, then it is likely the neighborhoods are suitable competition and could be considered within the same market area.

Non-residential properties may have demand drivers from diverse locations. "Thus, delineating the market areas for these uses usually starts with identifying the competitive cluster of buildings that compete for some of this diverse market of users."[15]

"The term *market area* may be more relevant to the valuation process than either *neighborhood* or *district* for several reasons:

- Using the umbrella term *market area* avoids the confusing and possibly negative implications of the other terms.
- A market area can include neighborhoods, districts, and combinations of both.
- Appraisers focus on market area when analyzing value influences. A market area is defined in terms of the market for a specific category of real estate and thus is the area in which alternative, similar properties effectively compete with the subject property in the minds of probable, potential purchasers and users."[16]

Delineating precise market area boundaries is challenging because markets may overlap and it may be difficult to decide how narrowly or broadly to define a market area. Therefore, this section is intended to assist in identifying potential market characteristics for identifying a market area, but not to present the techniques for delineating and segmenting a market area.

*Market characteristics that delineate a market area:* "The market area for the buyer/seller market is usually different from the market area for the user market. The market area for the buyer/seller market could be international, say, for a hotel, while the user market for the hotel could be within the country. Thus, market delineation for valuation has two main parts:

1. Analysis of the user market (owners, occupants, and the competition)
2. Analysis of the buyer/seller market."[17]

"The user market is identified before the buy/sell market is determined because the user market sets the basis of highest and best use, which in turn sets the parameters of the substitute property comparables identified in the buy/sell market."[18]

[15] Fanning, Steven F., *Market Analysis for Real Estate: Concepts and Applications in Valuation and Highest and Best Use*, Appraisal Institute, Chicago, 2005.
[16] *The Appraisal of Real Estate*, 13th Ed., p. 55.
[17] Ibid, p.174.
[18] Fanning, Steven F., *Market Analysis for Real Estate: Concepts and Applications in Valuation and Highest and Best Use*, Appraisal Institute, Chicago, 2005.

Possible demographic, socio-economic, lifestyle, geographic, and economic characteristics to consider in segmenting markets is listed below *(not an exhaustive list and not in any specified order)*:

- the type of structures and architectural style
- current land use
- typical site size
- tenure and vacancy rates
- income levels (average/median incomes/range of incomes)
- geographic characteristics (climate, natural resources, natural recreational opportunities, etc)
- population trends and rate of growth
- median prices and price range distribution
- economy (jobs, industries, diversification, growth, tax district, etc.)
- cultural and entertainment opportunities
- educational resources available (including school districts)
- infrastructure
- affordability
- availability of necessary services (hospitals, public transportation, utilities, etc)
- exposure to nearby properties (secluded or densely improved)
- absorption rates, demand, and market times
- condition and quality of residential and/or non-residential properties
- sustainability (green) features or characteristics
- rental rates
- historical renovations or newly built housing/non-residential properties
- typical building or housing size
- demographic components (family mix, age, purchasing power, etc.)

The segmenting of a market should take into consideration these or similar applicable data categories that are considered most relevant for the property type and use. Demographic, socio-economic, consumer behavior, economic, and lifestyle data can be retrieved or purchased through several available private and public resources, both locally and nationally.

## V. <u>Summary</u>

- The identification of what constitutes a similar, or "comparable property" is critical to the proper application of the three approaches to value.

- The appraiser identifies the comparability of the property by determining whether it is a competitive substitute for the subject property. The quantity and/or magnitude of the adjustments do not dictate comparability.
- The appraiser has to adequately explain and support the rationale for using the comparable properties selected in the appraisal report. Such narrative assists in demonstrating the reliability and credibility of the opinion of value. Where the comparable properties possess significant differences from the subject property, additional comparable properties may be included for additional support of the opinion of value.
- The appraiser cannot control the quality or suitability of the activity available in the market during the timeframe of analysis. Information could be limited in many markets, and many properties do not lend themselves to simplified comparison. In such cases, analysis of older transactions may also be required due to limited current activity in the market; however, such data should be cautiously considered. It is necessary for the appraiser to clearly express these limitations and to reconcile the reliability of the sales where a substantial number of the elements are sufficiently different.
- If the subject property has a significant element of comparison that competing properties lack or conversely, if the subject property lacks a significant element of comparison that competing properties possess, explanation is necessary. In such situations, generally recognized appraisal methodology would dictate an effort to use comparable properties that are both superior <u>and</u> inferior to the subject for that specific element of comparison (this process is often referred to as "bracketing"). Comparing properties with superior, similar, and inferior elements of comparison to the subject property may assist in validating the adjustments applied.
- A necessary consideration for determining if a property is comparable is whether the highest and best use of the subject property and the competing property is the same. Likewise, an appraiser should consider a change in the current use of a property by reference to the uses for which the property is suitable, or such as may be reasonably expected in the immediate future. These factors can be applied to both the subject property and the selection of comparable properties.
- Location is a primary consideration in the comparable property selection process. Ideally, a comparable property would compete with the subject property in location as well as other characteristics. When considering a comparable property's location competitiveness to the subject property, the subject property's local market performance and characteristics are measured alongside the comparable property's local market. Preferably, the comparable property is located in the subject property's market area.

## VI. Glossary of Terms and Definitions

### *Bracketing*

"A process in which an appraiser determines a probable range of values for a property by applying comparative analysis techniques to data such as a group of sales. The array of comparable sales may be divided into three groups – those superior to the subject, those similar to the subject and those inferior to the subject. The sale price reflected by the sales requiring downward adjustments and those requiring upward adjustment refine the probable range of values for the subject and identify a value range (i.e., a bracket ) in which the final value opinion will fall." Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 5th ed. (Chicago: Appraisal Institute, 2010),

***Comparable Property***

". . . properties that are similar to the property being appraised." *The Appraisal of Real Estate*, 13th Ed., p. 168.

***or***

A comparable property is a "property that has been the subject of a recent transaction and is sufficiently similar that it can be used to measure the value of another property. A comparable property should be the subject of a recent arms'-length transaction and ideally should be similar in location; age and design; construction and condition; and size and layout to the subject property, i.e. what is or has been available in a similar market. In practice, an ideal comparable property hardly ever exists; instead a valuer or appraiser extrapolates information on values from similar properties, makes adjustments and allowances, and uses his judgment to apply the resultant figure to the property he is seeking to value." Damien Abbott, *Encyclopedia of Real Estate Terms: based on American and English Practice, with terms from the Commonwealth as well as the civil law, Scots law and French law*, 2nd Ed., Delta Alpha Publishing, 2000, p. 200.

***Comparable Property (Rental)***

"A property that is representative of the rental housing choices of the subject's primary market area and that is similar in construction, size, amenities, location, and/or age. Comparable and competitive properties are generally used to derive market rent and to evaluate the subject's position in the market." National Housing and Rehabilitation Association, National Council of Affordable Housing Market Analysis, Market Study Terminology (2012), NH & RA's Housing Online.

***Competitive Property (Competition)***

". . . among competitive properties, the level of productivity and amenities or benefits characteristic of each property considering the advantageous or disadvantageous position of the property relative to the competitors." *The Appraisal of Real Estate*, 13th Ed., p. 38.

***Competitive Property (Rental)***

"A property that is comparable to the subject and that competes at nearly the same rent levels and tenant profile, such as age, family or income." National Housing and Rehabilitation Association, National Council of Affordable Housing Market Analysis, Market Study Terminology (2012), NH & RA's Housing Online. Retrieved from http://www.housingonline.com and http://www.bowennational.com/terminology.php on 08/26/2012.

***District***

"A type of market area characterized by homogenous land use, e.g., apartment, commercial, industrial, agricultural. *The Appraisal of Real Estate*, 13th Ed., p. 55.

***Highest and Best Use***

"The reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, and financially feasible and that results in the highest value." *The Appraisal of Real Estate,* 13th Ed., pp. 278.

***Market Area***

"The geographic region from which a majority of demand and the majority of competition are drawn" Adrienne Schmitz and Deborah L. Brett, Real Estate Market Analysis: A Case Study Approach, Washington, D.C., Urban Land Institute, 2001.

***or***

"The geographic or locational delineation of the market for a specific category of real estate, i.e., the area in which alternative, similar properties effectively compete with the subject property in the minds of probable, potential purchasers and users." *The Appraisal of Real Estate*, 13th Ed., p. 55.

***Neighborhood***

"A group of complementary land uses; a congruous grouping of inhabitants, buildings, or business enterprises." *The Appraisal of Real Estate,* 13th Ed., p. 55.

***Principle of Substitution***

"The principle of substitution states that when several similar or commensurate commodities, goods, or services are available, the one with the lowest price attracts the greatest demand and widest distribution. This principal assumes rational, prudent market behavior with no undue cost due to delay. According to the principal of substitution, a buyer will not pay more for one property than for another that is equally desirable." *The Appraisal of Real Estate*, 13th Ed., pp. 38-39.

## APPENDIX I: Examples of Physical Comparability Factors

| **Examples of Physical Comparability Factors** | |
|---|---|
| Major Asset Class | Comparability Factors |
| Residential Homes | Home Size; Lot Size; Bedrooms/Baths; View, Amenities, Water-frontage, Garage; Basement, Architectural Style, Construction Quality\Finishes, Age, Type (Attached, Condo, Townhome, Detached), Special Features |
| Office | Owner v. Tenant Occupied; Single/Multi-Tenant; Medical/Professional; Ownership Type (Condo, Fee, etc.); Date of Construction; Mechanical; Architectural Style/Age; Construction Quality; Amenities, Tenancy Mix; Functionality; Floorplate Size; Land Size; Parking Suitability for Use |
| Retail | Single/Multi-Tenant; Class of Retail (Grocery Anchor, Neighborhood Strip, etc.); Tenant Quality; Tenant Tenure, Visibility, Proximity to Residential, Parking Suitability; Age, Construction Quality, Amenities, Support Uses driving demand for retail use, Floorplan/Layout, Land Size, Signage |
| Industrial | Single/Multi-Tenant, Tenant Profile, Suitability to meet industrial user demand, ceiling heights, dock and loading door sufficiency, power sufficiency<br>Proximity to industrial demand generators, age, construction quality, land size, parking and loading circulation, floor loads, access to water/rail |
| Apartments | Unit Mix, Average Unit Size, Utility Metering and costs, proximity to demand drivers for rental demand, access and visibility, amenities<br>Age; Architectural Style, Construction Quality, Tenant Mix, Rent Control, Parking, Storage, On-Site Amenities |
| Agricultural | Site Size, Topography, Soil Suitability, Crop Yield, Irrigation/Water Availability, Utility Availability, Age of farm buildings, Environmental regulations, Availability of subsidies, Plottage, Access to Storage, Farm House Divisible, Proximity to applicable markets |

*Note:* Each class of property may have differing drivers which require further analysis; and there are segmentations amongst each of the above classes of property.

## APPENDIX II: Suggested Further Reading


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