FIN460: Real Estate Finance and Investment
Exercise 2: Uniform Residential Appraisal

Objectives

In this exercise, we will valuate a piece of residential real estate using the sales comparison method and cost method. This will be completed using Fannie Mae's standard 1004 Uniform Residential Appraisal Form.

Deliverable

Fill out the electronic appraisal form which can be found under exercise 2 on blackboard.

Due Date: Upload your completed appraisal form as a PDF or .doc file to the Blackboard link by Wed, June 17th 11:59pm.

Grading: This will be graded on a complete/incomplete scale

Directions

1. Download the word template for the Uniform Residential Appraisal Form and save to your hard drive. (Entering information into the preview using your internet browser will not save to blackboard)

2. Use the information on the next page to complete the form.

3. Fill out three sections on the form, Sales Comparison Approach, Cost Approach, and Reconciliation, providing a final appraised value at the bottom of page two of the form in the Reconciliation section.

4. Use the 1003 Alabaster appraisal as a example, which can also be found at the blackboard link.

Sales Comparison

You are trying to estimate the value of a property that you are interested in buying. The subject property is located at 322 Rock Creek Road in a suburb of a large metropolitan area.[1] The property is like many others in the area, with three bedrooms, two baths, a living room, a den, a large kitchen, and a two-car garage. The residence has about 1,800 square feet of air-conditioned space and is of traditional design. The property is located on an interior lot with no potential flooding problems. The quality of construction appears to be about average for the market area.

You have come to some conclusions concerning what you believe the different attributes of the comparable properties are likely to be worth in the market area. Appreciation in house values in the area has been very low over the past eight months, and you think that nay properties that have sold within that period would probably not require any adjustments for the time of sale. However, one of the comparable sold over a year ago, and you think it will require a $1,500 upward adjustment.

You also believe that properties in the area that are located near the creek sell for about $1,200 less than other properties in the area because of a slower rate of runoff after heavy rains. Properties on corner lots generally sell for a premium of about $1,000. Houses with the fashionable modern design usually bring about $1,000 more than those that have traditional design characteristics. Because three-bedroom homes are considered desirable by buyers in the area, an additional fourth bedroom will generally only add about $1,200 in value to a property. However, properties that contain only two bedrooms are rather difficult to sell, and often bring $2,000 less than their three-bedroom counterparts when they are sold. Most homes in the area have a two-car garage, but when properties have a one-car garage, they usually sell for about $800 less. A two-car open carport generally reduces the value of the property by a similar amount, or $800. The inferior construction quality exhibited by comparable III should reduce its value by about $1,500.

	Comparable I	Comparable II	Comparable III
Address	123 Clay St.	301 Cherry Lane	119 Avenue X
Sale price	$85,000	$79,000	$75,000
Time of Sale	6 Months Ago	7 Months Ago	13 Months Ago
Design	Modern	Traditional	Traditional
Parking	2-Car Garage	2-Car Carport	1-Car Garage
Location	Corner Lot	Interior Lot	Interior Lot
Drainage	Good	Below Average	Good
Bedrooms	Four	Three	Two
Baths	Two	Two	Two
Construction	Average	Average	Below Average

Cost Approach

Assume that the value of the lot of the subject property is constructed on is $13,000. Air-conditioned space in the dwelling would cost about $36.00 per square foot to reproduce, and the garage would cost approximately $3,700 to reproduce. Complete the cost approach to value, assuming that, because the property is new, no depreciation of the structure is required.

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[1]Bruedggeman and Fisher, example 7-3