

# Basic Appraisal Principles

## Timed Outline – 30 Hour Course

### Section 1: The Appraisal Profession

Topic	Time in Minutes
I. What Is a Profession?	10
A. Ethical Standard Of Practice	
1. Roadmap for Novices	
2. Protection for Existing Professionals	
3. Information for Users on Rules of the Profession	
B. Qualifications	10
1. Education	
2. Experience	
3. Licensing or Certification	
C. Maintenance of the Public Trust	10
1. Credibility through Competency	
2. Skills and Performance	
3. USPAP Competency Provision	
4. Competency Rule	
II. The Evolution of the Appraisal Profession	5
A. Profession Began Due to Conflict of Interest when Brokers Value Property	
B. FIRREA Requirements for Certification or Licensing	10
C. Development of Uniform Standards of Professional Appraisal Practice	5
D. Establishment of The Appraisal Foundation (TAF)	5
E. Establishment of the Independent Boards (ASB and AQB)	5
F. Recognition of USPAP as the Standard for the Profession	5
G. Appraisal Associations Assist Members	5
III. Appraisal, Appraisal Process, and Appraisal Practice	5
A. Appraisal – Noun or Adjective?	
B. Definition	
C. Appraisal Process	5
1. Problem Identification	
2. Scope of Work	5
3. Data Collection and Verification	5
4. Highest and Best Use	10
5. Land Value	5
6. Three Approaches to Value	15
a) Income Approach	
b) Cost Approach	
c) Sales Comparison Approach	
7. Reconciliation	5
8. Communicate the Results	5
D. Appraisal Practice	5

1. Economic Theory, Appraisal Theory, and Appraisal Practice	
2. Appraisal, Appraisal Review, and Appraisal Consulting	10
3. Appraisal, Valuation, and Evaluation	5
<b>TOTAL for Section 1 = 2.5 hours</b>	<b>150</b>

## Section 2: Real Property Concepts and Characteristics

Topic	Time in Minutes
I. Real Estate, Real Property Concepts and Characteristics	5
A. Land	
1. Attributes of Land	
2. Definition	5
3. Inverted Pyramid to the Center of the Earth (Figure 2.1)	5
B. Real Estate and Real Property	10
1. Real Estate	
a) Physical Land	
b) Appurtances (Improvements)	
2. Real Property and Bundle of Rights	5
a) Surface Rights	5
b) Subsurface (Mineral) Rights	5
c) Air Rights	5
d) Water Rights (Littoral and Riparian)	5
C. Estates	10
1. Fee Simple	
a) Fee Simple Absolute	
b) Fee Simple Qualified	
c) Fee Simple Defeasible	
d) Fee Simple Determinable (Condition Precedent)	
e) Fee Simple Conditional (Condition Subsequent)	
2. Life Estate	10
a) Remainderman and Estate in Remainder	
b) Reversion or Estate in Reversion	
3. Nonfreehold Estates or Leasehold Estates	5
II. Personal Property Concepts and Characteristics	10
A. Real Property and Personal Property	
B. Chattel	
C. Emblements	
D. Fixture	5
E. Trade Fixture	5
F. The Test for Fixtures	5
G. In Practice	5
III. Land Characteristics	10
A. Raw Land and Site	
1. Raw Land	
2. Site	

3. Vacant Land	5
4. Land Analysis	5
5. Land Description	5
B. Physical Characteristics of Land	10
1. Size and Shape	
2. Site Improvements	5
3. Topography	5
4. Accessibility	5
5. External Influence	5
6. Locational Influence	5
7. Plottage and Assemblage	5
IV. Legal Descriptions	5
A. Methods of Describing Real Estate	
1. Metes and Bounds (Figure 2.2)	10
a) Monuments	
b) Landmarks	
c) Point of Beginning	5
d) Modern Technology	5
2. Rectangular (U.S. Government) Survey System (Figure 2.3)	10
a) Principal Meridians and Range Lines (Figure 2.5)	
b) Base Lines and Township Lines (Figure 2.4)	
c) Townships and Sections (Figures 2.6, 2.7, 2.8 and 2.9)	10
d) In Practice	10
e) Correction Lines	5
f) Fractional Sections and Government Lots	5
3. Lot and Block System	10
a) Plat map	
b) Block and Lot Numbers	
c) Subdivision Plat (Figure 2.10)	
B. Combined Legal Descriptions	5
C. Land Units and Measurements (Table 2.1)	10
1. Distances	
2. Areas	
D. In Practice	10
<b>TOTAL for Section 2 = 4.5 hours</b>	<b>270</b>

### Section 3: Legal Considerations

Topic	Time in Minutes
I. Forms of Property Ownership	5
A. Ownership in Severalty (Separate Ownership)	
B. Co-Ownership	5
1. Tenancy in Common (Figure 3.1)	
2. Joint Tenancy (Figure 3.2 and 3.3)	5
a) Unities of Ownership	

b) Right of Survivorship	5
c) Partition	5
C. Marital Property	5
1. Tenancy by the Entirety	
2. Community Property	5
D. Partnership Property or Tenancy in Partnership	10
1. General Partnership	
2. Limited Partnership	5
3. Joint Venture	5
4. Syndicate	5
E. Corporation	10
F. Limited Liability Company (LLC)	5
G. Trusts	10
1. Trustee, Trustor, and Beneficiary	
2. Benefits of Trusts	10
a) Living Trust	
b) Testamentary Trust	
c) Land Trust	
3. Benefits of Land Trusts	10
a) Anonymity	
b) Easier Transferability	
c) No Marital Property Rights	
d) Collateral	
4. Real Estate Investment Trust (REIT)	5
H. Special Forms of Ownership	10
1. Condominium Ownership (Figure 3.4)	
2. Planned Unit Developments (PUDS)	5
3. Cooperative Ownership	5
4. Time-Sharing	5
II. Public Controls	15
A. Police Power	
1. Zoning Ordinances	
2. Variances	
3. Zoning Change	
4. Nonconforming Uses	
5. Building Codes	10
6. Historic Preservation Restrictions	
7. Subdivision Regulations	
8. Environmental Regulations	
B. Eminent Domain	10
1. Public Use	
2. Condemnation	
3. Just Compensation	
C. Taxation	20
1. General Taxation	
2. Ad Valorem Taxation	

3. Assessed Value	
4. Equalization Factor	
5. Tax Rate	
6. In Practice	10
7. Exemptions	5
8. Special Assessments or Improvement Taxes	
D. Escheat	5
III. Private Controls	10
A. Non-Financial Encumbrances	
1. Restrictive Covenants and Deed Restrictions	
2. Subdivision Restrictive Covenants	5
3. Encroachments	5
4. Easements	10
a) Appurtenant Easement	
b) Easement in Gross	
5. License	5
6. Party Walls or Party Wall Easement	5
7. Profit	5
8. Terminating an Easement	5
B. Financial Encumbrances	15
1. Leases	
a) Landlord (Lessor)	
b) Tenant (Lessee)	
c) Right of Reversion	
d) Lease Option Clause	
e) Right of First Refusal	
2. Types of Leases	5
a) Gross Lease	
b) Net Lease	5
c) Percentage Lease	5
d) Graduated Lease	10
e) Index Lease	
f) Ground or Land Lease	
C. Mortgages	5
1. Mortgagee and Mortgagor	
2. Various Types of Mortgages	30
a) Fixed Rate Mortgage	
b) Adjustable Rate Mortgage (ARM)	
c) First Mortgage	
d) Second Mortgage	
e) Purchase Money Mortgage (PMM)	
f) Construction Mortgage	
g) Reverse Mortgage	
h) Wraparound Mortgage	
i) Blanket Mortgage	
D. Liens	5

1. Voluntary or Involuntary	
2. General or Specific	5
3. Types of Liens	15
a) Judgment	
b) Tax	
c) Mechanic's	
d) Vendor's	
IV. Real Estate Contracts	5
A. Required Elements	5
1. Offer	
2. Acceptance	5
3. Consideration	5
4. Capacity	5
5. Legal Purpose	5
B. Real Estate Purchase Contract	30
1. Date	
2. Parties	
3. Property Description	
4. Price	
5. Contingency Clause	
6. Possession	
7. Evidence of Title	
8. Form of Deed	
9. Proration	
10. Property Inspection	
11. Home Warranty Plan	
12. Earnest Money	
13. Signing	
14. Closing	
V. Transfer of Title	5
A. Required Elements	10
1. Words of Conveyance	
2. Competent Grantor	5
3. Identifiable Grantee	
4. Adequate Legal Description	5
5. Proper Execution	5
6. Delivery and Acceptance	
B. Types of Deeds	10
1. General Warranty Deed	
2. Special Warranty Deed	5
3. Bargain and Sale Deed	5
4. Quitclaim Deed	5
C. Deed of Trust Vs. Deed in Trust	5
<b>TOTAL for Section 3 = 8 hours</b>	<b>480</b>

## Section 4: Value

Topic	Time in Minutes	
I. What Is Value?	20	
A. Value, Cost, and Price		
B. Differences between Value and Cost		
1. Direct Costs		
2. Indirect Costs		
II. Forces that Create Value	20	
A. Supply and Demand Factors		
1. Demand		
2. Utility		
3. Scarcity		
B. Whose Market Is It Anyway?	10	
1. Seller's Market		
2. Buyer's Market		
III. Forces that Affect Value	10	
A. Physical and Environmental		
B. Economic		5
C. Governmental		5
D. Social	5	
IV. Types of Value	5	
A. Market and Real Estate Market		
B. Market Value	15	
1. Arms Length Transaction		
2. Selling Price		
3. Asking Price/Listing Price		
4. Offering Price		
V. Other Types of Value	5	
A. Value in Use		
B. Special Use Property		5
C. Limited Market Property		5
D. Going Concern Value		5
E. Investment Value		5
F. Assessed Value = Market Value x Assessment Ratio		5
G. Insurable Value		5
H. Liquidation Value		5
<b>TOTAL for Section 4 = 2.25 hours</b>	<b>135</b>	

## Section 5: The Approaches to Value

Topic	Time in Minutes
I. The Sales Comparison Approach	10
A. Subject Property	
B. Comparables	
C. Elements of Comparison	10
D. Unit of Comparison	10
E. Quantitative Adjustment	10
F. Qualitative Adjustment	10
G. Methodized Process of the Sales Comparison Approach	15
1. Research relevant sales data collected from the market	
2. Verify data and validity of arms-length transaction	
3. Choose the units of comparison that are relevant	
4. Adjust for differences in elements of comparison	
5. Reconcile to value indication under the sales comparison approach	
H. Extracting Adjustments	20
1. Paired Sales Analysis	
2. Isolation of Differences	
3. Positive and Negative Adjustments to Comparables	20
4. Net Adjustment	
I. Reconciliation within The Approach	10
1. Weighting of the Comparables	
2. In Practice	10
II. The Cost Approach	10
A. Methodized Process of the Cost Approach	
B. RCN (Replacement Cost New/Reproduction Cost New)	5
C. Methods of Cost Analysis	10
1. Cost Index Method	
2. Square Foot Method	10
3. Unit-in-Place Method	10
4. Quantity Survey Method	10
D. Accrued Depreciation	5
1. Physical Depreciation	10
2. Obsolescence	5
a) Functional Obsolescence (Curable, Incurable and Superadequacy)	10
b) External Obsolescence	5
E. Methods of Depreciation	30
1. Economic Age-Life Method	
a) Effective Age (EA)	
b) Total Economic Life (TEL)	
c) Remaining Economic Life (REL)	
2. Modified Economic Age-Life Method	20
a) Excludes Curable Physical Depreciation	
b) Excludes Curable Functional Obsolescence	

3. The Breakdown Method	10
4. Straight-Line Depreciation Method	10
5. Market Method of Depreciation	10
F. Land or Site	5
G. Indicated Value under the Cost Approach	10
III. The Income Approach	5
A. Used with Income Producing Properties	
B. Income Capitalization Approach (Figure 5.1)	30
1. Net Operating Income (NOI)	
2. Potential Gross Income	
3. Vacancy and Collection Loss	
4. Effective Gross Income	
5. Operating Expenses	
C. Income Multiplier Method (Figure 5.2)	30
1. Gross Income Multiplier (GIM)	
2. Gross Rent Multiplier (GRM)	
<b>TOTAL for Section 5 = 6.25 hours</b>	<b>375</b>

### Section 6: Highest and Best Use

Topic	Time in Minutes
I. Highest and Best Use Defined	5
A. Reasonably Probable Use that Produces Maximum Value	
B. Two Methods	15
1. As if Vacant	
2. As if Improved	
II. Four Tests of Highest and Best Use	10
A. Physically Possible	
B. Legally Permissible	10
C. Financially Feasible	10
D. Maximally Productive	10
<b>TOTAL for Section 6 = 1 hour</b>	<b>60</b>

### Section 7: Economic (Appraisal) Principles

Topic	Time in Minutes
I. Economic Principles	4
A. Anticipation	
B. Balance	3
C. Change	3
D. Competition	3
E. Conformity	4
F. Consistent Use Theory	3
G. Contribution	4

H. Law of Decreasing Returns	4
I. Economies of Scale	3
J. Entrepreneurial Incentive	2
K. Entrepreneurial Profit	2
L. Externalities	3
M. Four Agents of Production	3
N. Four Stages of a Market (Neighborhood, District)	4
O. Law of Increasing Returns	4
P. Opportunity Cost	2
Q. Progression	4
R. Regression	4
S. Substitution	8
T. Surplus Productivity	3
U. Supply and Demand (Figure 7.1)	8
II. The Principles Applied	3
A. In Practice 1	
B. In Practice 2	3
C. In Practice 3	6
<b>TOTAL for Section 7 = 1.5 hours</b>	<b>90</b>

### Section 8: Overview of Real Estate Markets and Analysis

Topic	Time in Minutes
I. Market Analysis	5
A. Market Analysis and The Appraisal Process	10
1. Data Analysis	5
B. Market Analysis and Highest and Best Use	5
II. The Market Analysis Process	5
A. Step 1: Productivity Analysis	5
B. Step 2: Define the Market and Users	5
C. Step 3: Demand Analysis	5
D. Step 4: Supply Analysis	5
E. Step 5: Analyze the Interaction between Supply and Demand	5
F. Step 6: Forecast (Market Penetration of Subject)	5
G. Levels of Market Analysis	5
III. Types of Market Analysis	5
A. Economic Base Analysis	
B. Market Study	5
C. Marketability Study	5
D. Investment Analysis	5
E. Feasibility Analysis	5
<b>TOTAL for Section 8 = 1.5 hours</b>	<b>90</b>

## Section 9: Ethics and How They Apply in Real Estate Appraisal

Topic	Time in Minutes
I. Ethics and the Appraisal Profession	30
A. Appraisal professionals are obligated to report unethical activity	
B. Lack of intent to damage is no defense	
C. Standard of practice is ever-evolving	
<b>TOTAL for Section 9 = .5 hours</b>	<b>30</b>

Topic	Time in Minutes
<b>Final Exam = 2 hours</b>	<b>120</b>