

DEMONSTRATION FORM APPRAISAL REPORT GUIDE



***Minnesota Association of Assessing Officers
Minnesota State Board of Assessors***

May 2018

Table of Contents

	Page #	
Introduction		
Overview	i-iii	Overview / Form Report Graders
	iv-v	Submission Guidelines / Selecting the Subject Property
	vi-vii	Appraisal Report Summary
Section 1	1-1	Title page
	1-1	Letter of Transmittal
	1-1	Scope of Work
	1-1	Appraisal Report Type
	1-2	Intended Use and Purpose of the Appraisal
	1-2	Purpose of the Appraisal
	1-2	Effective Date of the Appraisal and Date of Report Completion
	1-2	Definition of Market Value
	1-2	Assumptions and limiting Conditions
	1-2	Identity of the Subject Property
	1-3	History of the Subject Property
	1-3	Property Rights Appraised
	1-4	Assessment and Tax Analysis
	1-5	Area Description and Analysis
	1-6 to 1-7	Neighborhood Description And Analysis
	1-8	Site Description and Analysis
	1-9 to 1-11	Improvement Description and Analysis
1-12 to 1-13	Highest and Best Use Analysis	
Section 2		Cost Approach
	2-1 to 2-3	Site Valuation with Adjustment Grid
	2-1, 2-4	Replacement/Reproduction Cost New & Depreciated
	2-4	Summary of Cost Approach
		Income Approach
	2-5	Estimate GRM & Market Rent
	2-6	Summary of Income Approach
		Sales Comparison Approach
	2-7	Comparable Properties
	2-8	Adjustment Grid and Summary
Section 3	3-1	Reconciliation
	3-2	Certification
	3-3	Addenda
	3-4 to 3-9	Maps
	3-10	Plot Plan
	3-11	Building Sketch
	3-12	Qualifications of the Appraiser
Sample Report	S-1	Cover Page
	S-2	Letter of Transmittal
	S-3	Scope of Work
	S-3	Appraisal Report Type
	S-3	Intended Use and Purpose of Appraisal
	S-3	Definition of Market Value
	S-5	Assumptions and Limiting Conditions
	S-6	Identification of Subject
	S-6	History of Subject
	S-7	Property Rights Appraised
	S-7	Tax and Assessment Analysis
	S-9	City and Area Analysis
S-12	Neighborhood Description and Analysis	

Table of Contents

Sample Report (cont.)	Page #	
	S-13	Site Description
	S-15	Factors Influencing Real Estate Market
	S-16	Highest and Best Use Analysis
	S-19	Improvement Description
	S-22	The Appraisal Process
	S-23	Cost Approach
	S-33	Income Approach
	S-36	Sales Comparison Approach
	S-46	Reconciliation and Final Estimate of Value
Miscellaneous	M-1 to M-14	Writing Guide
	M-15	Grading Sheet
	M-16- M-22	Form Report Checklist

OVERVIEW

This form report Guide is provided to candidates who are pursuing the Certified Minnesota Assessor Specialist (CMAS) or Accredited Minnesota Assessor (AMA) levels of licensure. Writing a demonstration form report on a residential property is one of the requirements to achieve this level of licensure. The purpose of the form report is to demonstrate to the Board of Assessors that the candidate has an understanding of the appraisal process and specifically the three approaches to value and how it pertains to a residential property. The form report requirements are more than completing a standard report form such as the Uniform Residential Appraisal Report (URAR) but far less than writing a complete narrative report. The date of appraisal must be **five years or less** from the date of grading submission.

Minimum requirements of the report are in three parts and are as follows:

Section 1

- Title Page
- Letter of Transmittal
- Scope of Work
- Appraisal Report Type
- Intended Use and Purpose of Appraisal
- Definition of Market Value
- Assumptions and Limiting Conditions
- Identification of Subject
- History of Subject
- Property Rights Appraised
- Tax and Assessment Analysis
- Highest and Best Use Analysis
- Improvement Description, Photos, Sketch and Site Plan
- Appraisal Process

Section 2

- Cost Approach Including Site Analysis
- Income Approach (GRM Analysis)
- Sales Comparison Approach Including Photos of Comparables

Section 3

- Reconciliation
- Signed Certification
- Addenda which includes Maps, Plot Plan, Floor Plan, and Qualifications of Appraiser

This guide is divided into the following parts:

- Overview
- Section 1 – General Data
- Section 2 – Appraisal Process
 - A - Cost Approach
 - B - Income Approach
 - C - Sales Comparison Approach

OVERVIEW (cont'd)

- Section 3 – Reconciliation
 - Certification
 - Qualifications
 - Addenda
- Sample
- Miscellaneous

The report will be graded in accordance with the guidelines determined by the State Board of Assessors, by authorized individuals designated by the board. The grading sheets adopted by the board are included for your information. If the report does not receive a passing score on the first grading, the report may be resubmitted for grading. The second submission will require additional payment of the grading fee.

The candidate is encouraged to contact a member of the Form Report Grading Committee regarding any issues or challenges facing the candidate to complete this process.

Minnesota State Board of Assessors

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Submission Guidelines


The report should be an example of the candidate's "best" work. It should have a professional appearance and be thoroughly reviewed for typographical and mathematical errors. The candidate should round amounts to whole numbers consistently. The professional appearance, logical organization, and absence of grammatical and mathematical errors are important to the report and to the impression the report makes on the grader. The report should contain clear digital photos.

When submitting the report the candidate must certify that:

1. The candidate has personally prepared the report in its entirety, exclusive of typing.
2. The appraisal is of an existing property.
3. The subject property has not been previously used as a subject in another demonstration form appraisal or a demonstration narrative report.

The candidate must do original work. Except for the use of basic definitions and data from published sources, all work must be original. A completed **Grading Request for the Form Report** must be submitted with the grading fee of \$35.00 to the Minnesota State Board of Assessors. Submit your Form Report for grading on the [Assessor Licensing System](#).

Grading Request

Type	* Form Report
Fiscal Year	* 2018
Grading Fee	\$35.00
Attachments	*  Attach Document

The report will then be forwarded from the Board to a grader. The results of the grading are final. The candidate should allow 4-6 weeks for the report to go through the grading process. If the candidate is approaching a deadline this should be considered prior to submission. Direct questions to the State Board Secretary at:

Phone: 651-556-6086 or
assessors.board@state.mn.us

Minnesota State Board of Assessors
Mail Station 3340
St. Paul, MN 55146-3340

Selecting the Subject Property

The selection of the subject property is a critical step in the preparation of the form report. Choose a simple property in an area where there is adequate market activity. Avoid choosing a property without city services, a newly constructed home, or a unique property. The more complex the subject property, the more extensive the appraisal report. Keep it as simple as possible. The subject must be of a detached single-family dwelling. The subject should permit the demonstration of all three approaches to value and the highest and best use must be such that the three approaches to value can be applied correctly. It is the responsibility of the candidate to ensure there is adequate market data to complete the requirements of the report. It is a good idea to gather comparables first, and then choose the subject property based on the available comparable sales. The date of appraisal does not have to be January 2. To avoid excessive and unnecessary market conditions adjustments, the month following your latest comparable sales date is a good choice. Contact one of the graders if you have any questions.

APPRAISAL REPORT SUMMARY

(This summarizes the typical number of pages in the report to meet the minimum requirements.)

# Pages	SECTION 1
1	Title page
1	Letter of Transmittal
3-4	Introduction <ul style="list-style-type: none"> - Scope of Work - Appraisal Report Type - Intended Use and Purpose of Appraisal - Effective Date or Appraisal Date of Report - Definition of Market Value - Assumptions and Limiting Conditions - Identity of the Subject Property - History of the Subject Property - Property Rights Appraised - Assessment & Tax Analysis
2	Area Description and Analysis
2	Neighborhood Description and Analysis
2	Site Description and Analysis
3	Highest & Best Use Analysis
3	Improvement Description and Analysis
1	Appraisal Process
	SECTION 2A
	Cost Approach
3	Site Valuation with Adjustment Grid
1	Building Cost and Justification
2	Depreciation Analysis
1	Summary of Cost Approach
	SECTION 2B
2	Income Approach
	Estimate GRM & Market Rent
	Summary of Income Approach
	SECTION 2C
6	Sales Comparison Approach Comparable Properties Adjustment Grid Units of Comparison Summary

APPRAISAL REPORT SUMMARY

# Pages	SECTION 3
1	Reconciliation
1	Certification
10-?	Addenda <ul style="list-style-type: none">- Maps- Plot Plan- Floor Plan- Comparables Map- Qualifications of Appraiser

The typical appraisal, not including addenda, is 30-35 pages. Each report may be shorter or longer as needed.

Title Page

The title page should include the address of the subject property, the property type, the date of appraisal, and the name and address of the appraiser. See page S-1.

Letter of Transmittal

A Letter of Transmittal is a business letter to the State Board of Assessors that accompanies the report. Sign and date the letter and include the conclusions of the report and other important items. Include in the body of the letter the identification of the property by address and legal description, the property rights appraised, the purpose of the appraisal, the definition of value and its source, and the final estimate of value. The letter should state the number of pages and exhibits in the report and the appraisal date to which the final value estimate applies. Finally, the candidate may add any relevant additional comments, keeping the letter as brief as possible. See page S-2.

Introduction

Scope of Work

Scope of Work Rule

An appraiser must properly identify the problem to be solved in order to determine the appropriate scope of work. The appraiser must be prepared to demonstrate that the scope of work is sufficient to produce credible assignment results. Scope of work includes, but is not limited to:

- the extent to which the property is identified
- the extent to which tangible property is inspected*
- the type and extent of data researched; and
- the type and extent of analyses applied to arrive at opinions or conclusions.

*If an interior inspection is not made, the source(s) for the interior description and floorplans should be identified.

See page S-3

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Appraisal Report Type

Standards Rule 2-2

Each written real property appraisal report must be prepared under one of the following options and prominently state which option is used: Appraisal Report or Restricted Appraisal Report. See page S-3.

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Intended Use and Intended Users of the Appraisal

The intended use of the report is to satisfy the demonstration of knowledge requirements of the Board of Assessors. The intended user of the appraisal report is the Board of Assessors. See page S-3.

Purpose of the Appraisal

The purpose of this appraisal is to estimate the market value of the subject property under the assumptions and definitions specified in this report. See page S-3.

Effective Date of the Appraisal and Date of Report

The effective date of the appraisal establishes the context for the value opinion while the date of the report indicates the date the report was completed. The date of appraisal must be 5 years or less from the date of the grading submission. The effective date of appraisal does not have to be January 2. The best way to select an effective date of appraisal is to pick a date that follows the date of your most recent comparable sale used in your report (both site and improved sales). For example, if your most recent sale is March 25, 2016, an appraisal date of April 1, 2016 would be a good choice. See page S-3.

Definition of Market Value

For the purposes of the appraisal report, the value being sought is “market value.” The definition of value requires an appropriate reference definition and any comments that will indicate clearly to the reader how the definition is applied. See page S-3.

Assumptions and Limiting Conditions

See page S-5.

Identity of the Subject Property

Provide a brief narrative description of the subject property including its property type and location, street address, legal description, and any other method of description (such as tax parcel number) so that the subject property is fully identified. Front and rear pictures of the subject property help the grader visualize the appraisal problem. See page S-6.

History of the Subject Property

Standards Rule 1-5

When the value opinion to be developed is market value, an appraiser must, if such information is available to the appraiser in the normal course of business:

- (a) analyze all agreements of sale, options, or listings of the subject property current as of the effective date of the appraisal; and*
- (b) analyze all sales of the subject property that occurred within the three (3) years prior to the effective date of the appraisal. See page S-6.*

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Property Rights Appraised

In keeping with the purpose and function of this appraisal, the property rights valued are the fee simple ownership rights of the subject property with no restrictions, indebtedness, or other encumbrances. This is the most complete type of ownership. It is ownership of all legal rights. They are right to use, sell, rent or lease, enter or leave, give away and refuse to do any of the above. See page S-7.

Assessment and Tax Analysis (example to use)

Assessment History and Assessment Levels

The current assessment on the subject property represents approximately ___ percent of its market value as estimated in this report. The analysis below indicates that the assessment level of the subject property is proportional and equitable with other properties located within the area. See page S-7.

Three-Year Assessment and Tax History Analysis – Subject Property

<i>Year</i>	<i>Assessor's Market Value</i>	<i>Taxable Market Value</i>	<i>Tax Capacity Ext. Rate</i>	<i>Annual Real Estate Taxes</i>	<i>Taxes Per Square Foot</i>

Assessment Level Analysis

	<i>20__ Assessor's Market Value</i>	<i>Sale Price</i>	<i>Sq. Ft.</i>	<i>Sale Date</i>	<i>Assessment Ratio</i>	<i>Payable 20__ Real Estate Taxes</i>	<i>Tax Per Square Foot</i>
Subject							
Comparable 1							
Comparable 2							
Comparable 3							

Comments:

Area Description and Analysis

The regional and city data section should:

1. Describe the geographical location and where the subject neighborhood is within the market area.
2. Identify and evaluate the four forces – social, economic, governmental, and environmental – that affect the subject property type and the subject property.
3. Analyze trends in the four forces that clearly have a significant effect on the subject property.
4. Arrive at a clear-cut, definitive conclusion about the future of the region or city and how this future will affect the subject property.

The analysis of regional and city data is a necessary part of the valuation process. It provides the background for specified property appraisals, supplies information about future trends, and forms a basis for the appraiser's judgments.

An understanding of the four forces that influence value – social, economic, governmental, and environmental – is fundamental to appraising because the interaction of these forces creates the conditions whereby property values increase, decrease, or remain stable.

Identification of key points under the four major forces can help in organizing this section. Once the broad background features have been defined, narrow the consideration to the most relevant points affecting the subject. Typical market behavior in the area should be the guide in determining the appropriateness of the information you report. See page S-9.

The following represents a number of factors to discuss:

1. Population data and growth statistics
2. Employment and activity sources
3. Regional sources
4. Governmental services
5. Government efficiency or inefficiency
6. Unemployment
7. Traffic, street, and parking problems
8. Location of support services
9. Other pertinent features such as:
 - a. Climate
 - b. Topography
 - c. Soil and subsoil

See page S-9.

Neighborhood Description and Analysis

Overview

Neighborhood analysis should:

1. Delineate the neighborhood boundaries and locate the subject property within the neighborhood.
2. Provide a background for estimating remaining economic life expectancy and effective age.
3. Reach a conclusion, based on the data presented, concerning the probable future of the neighborhood and how this future will influence the subject property and similar properties.

An understanding of the four forces that influences value – social, economic, governmental, and environmental – is also a fundamental concept in neighborhood analysis. The neighborhood factors that are considered in the three approaches to value should be explained and analyzed here, in preparation for the application of the approaches later in the report.

Major items to be included in Neighborhood Analysis

A neighborhood analysis should be a continuation of the analysis set forth in the regional/area analysis. The following is an outline of some of the more significant factors that should be considered and analyzed in this section:

1. Define, support, and document neighborhood boundaries.
2. Describe the predominant types of improvements, including the quality and type of construction of the typical home and the conformity or lack of conformity of the subject property.
3. Describe the history of the neighborhood
4. Discuss and analyze the price range of properties and rental rates.
5. Describe the typical age and condition of improvements.
6. Describe and analyze the life stage and trends of the neighborhood.
7. Describe and analyze the extent to which the neighborhood is built-up.
8. Consider the most probably sources of financing, loan ratios, and current and available mortgage rates.
9. Describe and analyze the location and accessibility of the neighborhood compared with competing neighborhoods.
10. Describe and analyze the appropriate characteristics of land usage through planning, zoning, and other restrictions.
11. Consider the degree of homogeneity (or lack thereof) of surrounding properties and its effect on value.
12. Describe and analyze vacancy and/or occupancy rates or ratios.
13. Describe and analyze the turnover in ownership or occupancy.
14. Discuss new construction activity, if any, and the inventory of competitive properties.

Major items to be included in Neighborhood Analysis (con't)

15. Discuss the availability and adequacy of utilities.
16. Discuss any detrimental influences, nuisances, or hazards external to the property.
17. Discuss and analyze the proximity of the neighborhood to employment centers, central business district, shopping districts, schools, houses of worship, transportation, civic services, recreational and cultural facilities, and any other locational characteristics that are relevant to values and market acceptance of the neighborhood.

See page S-12.

Site Description and Analysis

Overview

This section uses specific data to describe the subject site accurately. An accurate physical description is needed to determine the property's highest and best use as though vacant and to select comparable site sales.

This section should state the official zoning designation, the governmental body that controls the zoning, a short description of the principal uses and restrictions, and the subject property's conformity or nonconformity. Any positive or negative effects on value should be analyzed, including any special zoning requirements.

The zoning ordinance, or pertinent portions of the ordinance, may be contained in the addenda to the report. A zoning map showing the location of the subject property should be included.

Major items to be included in Site Description and Analysis

The site must be accurately described. A plot plan should be inserted at this point. The plot plan should include a drawing of the site with site dimensions. Identify road frontages, the location of the dwelling, landscaping, and other characteristics that help describe the site and how it is presently being utilized. Other items to include would be easements, encroachments, and other factors that help to depict the site graphically. This section should include the following:

1. Site dimensions, area, and shape
2. Topography
3. Drainage, soil, and subsoil conditions
4. Access (describe streets and their adequacy)
5. Utilities and the adequacy of utilities
6. Man-made improvements such as walks, curbs, and driveways
7. Proximity to any nuisances, hazards or detrimental influences
8. Easements and encroachments with analysis of their effect on the site, if any
9. Zoning designation and meaning
10. Allowable uses within the zoning district
11. A conclusion on the conformity or nonconformity of the site or property to public or private restrictions

See page S-13.

Improvement Description and Analysis

Overview

This section provides a detailed description of the improvements that enables the reader to visualize the subject while reading the report. The critical factors to be determined are the quality of the improvements, the condition of the structure and its components, and the functional utility of the structure. Conclusions regarding depreciation, effective age, and remaining economic life expectancy should be reached.

This portion of the report can be as long or as short as necessary to describe and analyze the improvements. The use of exhibits may be particularly helpful. Photographs of the structure should include the exterior and street. Other pertinent exhibits should include floor plans drawn to scale.

Description of the Improvements

The description portion should include the current use, architectural style, type or quality of construction, dwelling dimensions, area, mechanical equipment, description, and any ancillary improvements such as porches, swimming pools, etc. This portion can be described in an abbreviated outline, a narrative form, or combination of both. A scaled drawing of the improvements must be provided here showing the building layout with exterior dimensions.

Analysis of the Improvements

The analysis portion should include a discussion of the age and the condition of the improvements and all major building components. The dwelling's effective age and remaining economic life should be discussed here. Functional utility or inutility must be discussed and analyzed.

See page S-19.

Sample Improvement Description

A. Exterior description

1. Substructure: footings, slabs, columns, beams, and foundation walls, etc.
2. Superstructure
 - a. Framing
 - b. Insulation
 - c. Ventilation
 - d. Exterior walls
 - e. Exterior doors
 - f. Windows, storm windows, and screens
 - g. Roof and drain system, condition, replacement
 - h. Chimneys and vents
 - i. Special features

B. Interior description

1. Interior walls and doors, conditions
2. Division of space
 - a. Total number of rooms
 - b. Total number of bedrooms
 - c. Total number of baths
 - d. Storage areas
 - e. Circulation zones
3. Interior supports
 - a. Beams and columns
 - b. Flooring system
 - c. Ceilings
4. Painting, decorating, and finishing
 - a. Wall and ceiling finish
 - b. Floor covering
 - c. Molding and trim
 - d. Fireplaces
5. Basement
 - a. Full or partial
 - b. Size in square feet
 - c. Molding and trim
 - d. Fireplaces
6. Pest control
7. Miscellaneous and special features

C. Equipment and mechanical systems

1. Plumbing system
 - a. Piping
 - b. Fixtures
 - c. Water heater

2. Energy systems
 - a. Heating system
 - b. Heating system fuels
 - c. Air-conditioning or cooling system
 - d. Electrical system
 3. Miscellaneous equipment
 - a. Fire protection
 - b. Specialized equipment
- D. Other features**
1. Calculation of gross living area
 2. Appliances – built-in (BI) items that apply to real estate
 3. Attached improvements
 - a. Garages/carports – BI or detached
 - b. Porches
 - i. Open
 - ii. Enclosed
 - c. Patios and/or decks
- E. Site Improvements**
1. Drives, walks, parking lots, etc.
 2. Fences
 3. Yard buildings and/or detached garages
 4. Pools, patios, sheds and etc.
 5. Lawn and landscaping
- F. Actual age, effective age, remaining economic life and useful life**
1. Actual chronological age
 2. Effective age estimate (support)
 3. Remaining economic and useful life (support)
- G. Quality and condition survey – all items should provide a description of quality and condition.**

Highest and Best Use Analysis

Overview

The highest and best use analysis is a pivotal section of an appraisal report. It is based on the data and analysis already presented, and it puts the remainder of the report into focus and leads the reader to the final indication of value.

From the information presented and derived in the previous sections, appropriate market information is analyzed and conclusions are drawn.

Procedure

In this section of the report, the appraiser considers:

1. Highest and best use of the site as though vacant, using the four criteria. The highest and best use must be legally permissible, physically possible, financially feasible, and maximally productive.
2. Identification of the ideal improvement.
3. Highest and best use of the site as improved.

Highest and Best Use of the Site as Though Vacant

This analysis must address the four criteria. The highest and best use supported must be legally permissible, physically possible, financially feasible and maximally productive. This analysis should end with a conclusion of the ideal improvement that represents the highest and best use of the land as though vacant.

Highest and Best Use of the Property as Improved

Through analysis of the four criteria for highest and best use, this portion should establish that use which is maximally productive. This analysis should include curing any curable deficiencies, repairs, or renovations. A comparison of the existing improvements with the ideal improvements should identify the depreciation measured in the sales comparison approach.

See page S-16.

Highest and Best Use

Legal Permissibility

- a. What is current zoning (R-1, single-family, multi-family, etc.)
- b. What does zoning allow?
- c. Are there deed restrictions?
- d. What are minimum lot sizes and set -backs?
- e. Is there a possibility of change in zoning?

Physical possibility

- a. Size
- b. Shape
- c. Access
- d. Utilities
- e. Flood plain
- f. Wetlands
- g. Special view
- h. Quality of roads
- i. Special nuisances or hazards such as location next to gas station, etc.
- j. Location

Financially feasible

- a. What is the market currently doing in this neighborhood or marketing area?
Days on the market?
- b. Is financing available and at what terms?
- c. What are income levels of buyers and are there ample buyers to necessitate a particular product?
- d. Are builders building in this area and if so are they able to command a reasonable profit?
- e. What is the market most in need of that the legal aspects of this property would allow and the physical characteristics would accommodate?

Maximally productive

- a. What would be the best product to build on this site? Single-family, multi-family, etc.
- b. What size? (range of most typical size would be acceptable)
- c. How many bathrooms, bedrooms, garage, carport, etc.?
- d. What quality and general price range? Be sure to look at your neighborhood to be sure you've properly set this up.

Cost Approach

Overview

The cost approach is one approach used to value single-family residential properties. It gives separate consideration to the value contribution of the site and of the improvements. Therefore, the cost approach is required in the demonstration appraisal report.

Cost New Estimate Procedure

1. Estimate the value of the site as though vacant and available for development to its highest and best use.
2. Estimate all reproduction costs required to construct the main improvement(s). This estimate includes direct costs, indirect costs, and an entrepreneurial profit, if appropriate, at current prices.
3. Estimate the amount of depreciation due to physical deterioration, functional obsolescence, and external obsolescence. Deduct this amount from the reproduction or replacement cost of the improvements to obtain the depreciated value of the improvements.
4. Estimate the reproduction cost of any site improvements or accessory buildings, and deduct depreciation from these costs.
5. Add the depreciated value of all improvements to the value of the site to obtain the property value. See page S-32.

Site Valuation See page S-23-28

The presentation and analysis of valuation data should include:

1. A description of each comparable sale, including all physical facts relevant to the sale, a brief comparison of each sale to the subject site, all recordation data, sale price, date of sale, deed type, grantor, grantee, sources of verification, financing, parcel identification, and notation of any unusual situations. It is important to include attributes relevant to the site being valued; for example, easy access for customers and high traffic counts are important to retail sites, easy access to freeways is important for industrial sites, and low traffic counts are important to residential sites. If the subject property suffers from external obsolescence, the description of each comparable site must note the absence or presence of this economic deficiency.
2. A discussion of the units of comparison that may apply in valuing the subject site: front foot, site, square foot, acre, allowable units, and so on.
3. A list and discussion of elements of comparison (such as financing, time, location, shape, size, and topography) for which adjustments may be performed.
4. An analysis of the comparable sales, including adjustments, grids, and charts showing the application of adjustments. It is advisable to use two sets of grids: one comparing relevant property characteristics of the sale comparables, as well as those of the subject property, and another set summarizing the various adjustments. The candidate must justify all adjustments, comments, and conclusions. Adjustments must be market-derived, not based on cost. If more than one unit of comparison is analyzed, use a separate adjustment grid for each.

5. A summary subsection giving the final conclusion of value for the site as of the appraisal date. This summary must discuss the logic that led to the final value conclusion.
6. **A minimum of three (3) site sales are required and at least one (1) market derived adjustment applied (not including the adjustment for market conditions).**

Major Items to be included in the Site Valuation

The best method for estimating site value is by use of vacant comparable site sales. The sales should be reduced to appropriate units of comparison. The value of the site should be as though the site were vacant and available for its highest and best use.

Use grid on page 2-3 to summarize and analyze sales. See page S-27.

Reproduction/Replacement Cost New

This subsection covers the estimate of the cost new of the subject improvement as of the date of appraisal. The candidate should distinguish between reproduction cost new and replacement cost new. Most cost manuals list replacement cost, not reproduction cost. If the subject property exhibits functional obsolescence, reproduction cost must be utilized. An industry standard cost guide such as Marshall Valuation Service along with the square foot method should be used. The quality of construction should be referenced in the estimate. The costs should include all improvements, including basement areas, garages, decks, and built-in appliances. The cost of site improvements such as driveways, sidewalks, and fences should be calculated separately and also depreciated separately from the subject's main improvements.

See pages S-28 and S-29

Depreciation

The candidate should briefly review and identify all forms of depreciation related to the subject and distinguish between curable and incurable depreciation. The purpose of this section is to identify the loss in value from all causes from cost new until the date of appraisal. When the subject suffers from a particular type of depreciation, its effect on value should be examined. Physical deterioration, curable or incurable, functional obsolescence, curable or incurable and external obsolescence may or may not be present in the subject. **For the purposes of this demonstration report the candidate may identify each form using the breakdown method or combine all forms of depreciation into a lump sum based amount (market extraction method) using the sample provided on S-21 and S-32 or a combination of these methods.** Samples on how to demonstrate each form are found in "Appraising Residential Properties" pages 292-294 and pages 301-309. Remember, in order for an item to be curable, the cost to correct the problem must be less than or equal to the contributory value of the feature.

COST APPROACH SITE VALUATION ADJUSTMENT GRID

(Note: Use this page to summarize the site value estimate)

	Subject	Sale #1	Sale #2	Sale #3	% Difference
Property Address					
PID					
Lot Size					
Front Feet					
Sale Date					
Sale Price					
Market Conditions					
Adjusted SP per Site					
Adjusted SP per SF					
Adjusted SP per FF					
Street Type					
Location					
Topography					
Gross Adjustments					
Net Adjustments					
Indicated Value per _____					

Final site value estimate: \$ _____

Income Approach

The income approach implements the theory of present value for anticipation of future benefits. In the case of single-family homes, the Gross Monthly Rent Multiplier (GRM) is often used as the form of Income Approach. In order to find the GRM, a property's sales price is divided by its monthly rent. The GRM is then multiplied by the subject's estimated market rent to estimate the market value.

Step one is the estimation of the market rent for the subject. Three comparables are recommended. These should be properties that are rented at the date of appraisal. Since rentals are sometimes difficult to find, you may need to go to other similar neighborhoods or communities to find adequate data.

Step two is the estimation of a gross rent multiplier. Where rental data is in short supply, you may also use the rental-sales for the estimation of the market rent. Remember, you do NOT adjust rental-sales comparables for the estimation of GRM. Since the sales used to develop a GRM are not required to be closely similar to the subject, selection of the appropriate GRM may be done by an averaging process without support. State the value estimated by the Income Approach as of the appraisal date.

1. The best support of a gross rent multiplier is to find the most comparable, recently sold properties that were leased at market rent at the time of sale or immediately after.
2. If comparable, recently sold rental properties are scarce, sales of other single-family properties, not necessarily highly comparable to the subject, that were rented at the time of sale may be used.
3. Properties that are currently rented and listed for sale or those listed for sale with an option to rent may be used.
4. If data is still needed, the combination of a rental with a separate but highly comparable sale may be used. For example, one might combine a single-family property that is rented with a highly comparable property next door that recently sold.
5. **A minimum of three (3) rental/sales are required.**

The same property can be used to support both the estimation of market rent and the proper gross rent multiplier if the property meets criteria for both analyses.

See page S-34.

Application of the Sales Comparison Approach

In the sales comparison approach, the value is estimated by analyzing sale prices of similar properties that recently sold. This approach to value is based on the principle of substitution, which states that a property's value tends to be set by the cost of acquiring an equally desirable substitute. This approach also relies on the concept of value in exchange, which measures the market conditions that informed purchasers would consider when selecting a property to purchase from available properties on the market. This approach gives a direct indication of the actions of buyers and sellers in the real estate market.

The sales comparison approach is the most reliable of the three approaches to value in estimating values of single-family properties if market data is available. The key to the reliability of the sales comparison approach is directly related to the adequacy of the market sales information and the degree of similarity of those sales to the subject property. When comparable sale properties have been located, adjustments must be made to those properties for differences between the factors that were considered in examining the comparable sales. Typical adjustments include the following:

1. Terms and/or conditions of sale
2. Market conditions
3. Location
4. Physical characteristics
5. Age and condition of improvements

Adjustments are always made to the comparable sale, never to the subject property. The total adjustment for each comparable is the sum of several individual items adjusted for in each sale. When properly adjusted, the sales comparison approach offers a direct indication of the actions of buyers and sellers in the real estate market.

In the sales comparison approach, appraisers estimate a price per unit of comparison. The unit of comparison may be the property as a whole or some smaller measurement of size, considering that the subject property and the comparable properties are single-family residences. The units of comparison that are most commonly used and analyzed will include:

1. price per dwelling
2. price per square foot of gross living area
3. price per room
4. price per bedroom

The primary unit of comparison for single-family residences is always sales price per square foot of gross living area (above grade).

A minimum of three (3) comparable sales and at least two (2) market derived adjustments (not including the adjustment for market conditions) are required.

See page S-40-45.

SALES COMPARISON APPROACH ADJUSTMENT GRID

(Note: Include this completed grid in the report)

	Subject	Sale #1	Sale #2	Sale #3
Address				
Sale Date				
Sale Price				
Financing Adjustment				
Market Conditions Adjustment				
Adjusted Sale Price				
Gross Living Area				
Adjusted SP per GLA				
Adjusted SP per Room				
Adjusted SP per BR				
Adjustment				
Adjustment				
Gross Adjustments				
Net Adjustments				
Number of Adjustments				
Adjusted SP per SF of GLA				

Final Estimate of Value: \$ _____

RECONCILIATION OF VALUE

Major items to be included in the Reconciliation

The purpose of reconciliation is to complete the process of correlation. Reconciliation derives from an analysis of the quantity and quality of the data examined in the approach. This analysis includes the inherent advantages and disadvantages of the approach and the relevance to the property appraised and the appraisal problem. Explain any discrepancies and apply sound reasoning to the facts and interpretations that lead to the final conclusion, keeping in mind the definition of value and the use of the report.

Final Value Estimate (sample)

This section of the report states your final opinion of value and the date of valuation.

The three approaches to value have been completed and the following values are indicated for the subject real estate market value as of _____,

Cost Approach	\$ 184,600
Income Approach	\$ 180,000
Sales Comparison Approach.....	\$ 183,300

Information has been documented and verified as far as possible with sources believed to be reliable.

The cost to construct the subject improvements is predicated on the replacement cost. The appraiser believes that for most single-family properties, buyers give little consideration to the cost method of estimating value. But for standard new construction, it is generally a reliable indication of value.

The sales comparison approach is based on the principle of substitution, which affirms that a prudent purchaser will not pay more for a property than for an equally desirable substitute property. A typical buyer seeks the best buy available; consequently, the sales comparison approach is a strong indication of value when adequate data is available.

The income approach to value is based on the theory that value is the present worth of estimated future benefits.

After consideration of the three approaches to value, a value bracket of \$180,000 to \$184,600 is indicated. The appraiser believes that most weight should be given to the sales comparison approach, as very few properties of this type are bought and sold for their income producing capabilities. The cost approach is given minimal consideration, as it is very difficult to estimate the actual amount of depreciation for a property, which is not newly constructed. The sales comparison approach is the best indicator of value as there was sufficient data available. The four comparables were each located in the subject's neighborhood and were all very similar to the subject. Each of the major differences were adjusted for. As a result of this appraisal, it is the appraiser's opinion that the estimated market value of the subject property, as of _____ is:

One hundred eighty three thousand dollars (\$183,000)

CERTIFICATION

I certify that, to the best of my knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
4. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
5. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
7. My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
8. I have (or have not) made a personal inspection of the property that is the subject of this report.
9. No one provided significant real property appraisal assistance to the person signing this certification.
10. As of the date of this report, I have completed the continuing education program of the Minnesota State Board of Assessors.

John Smith, CMA

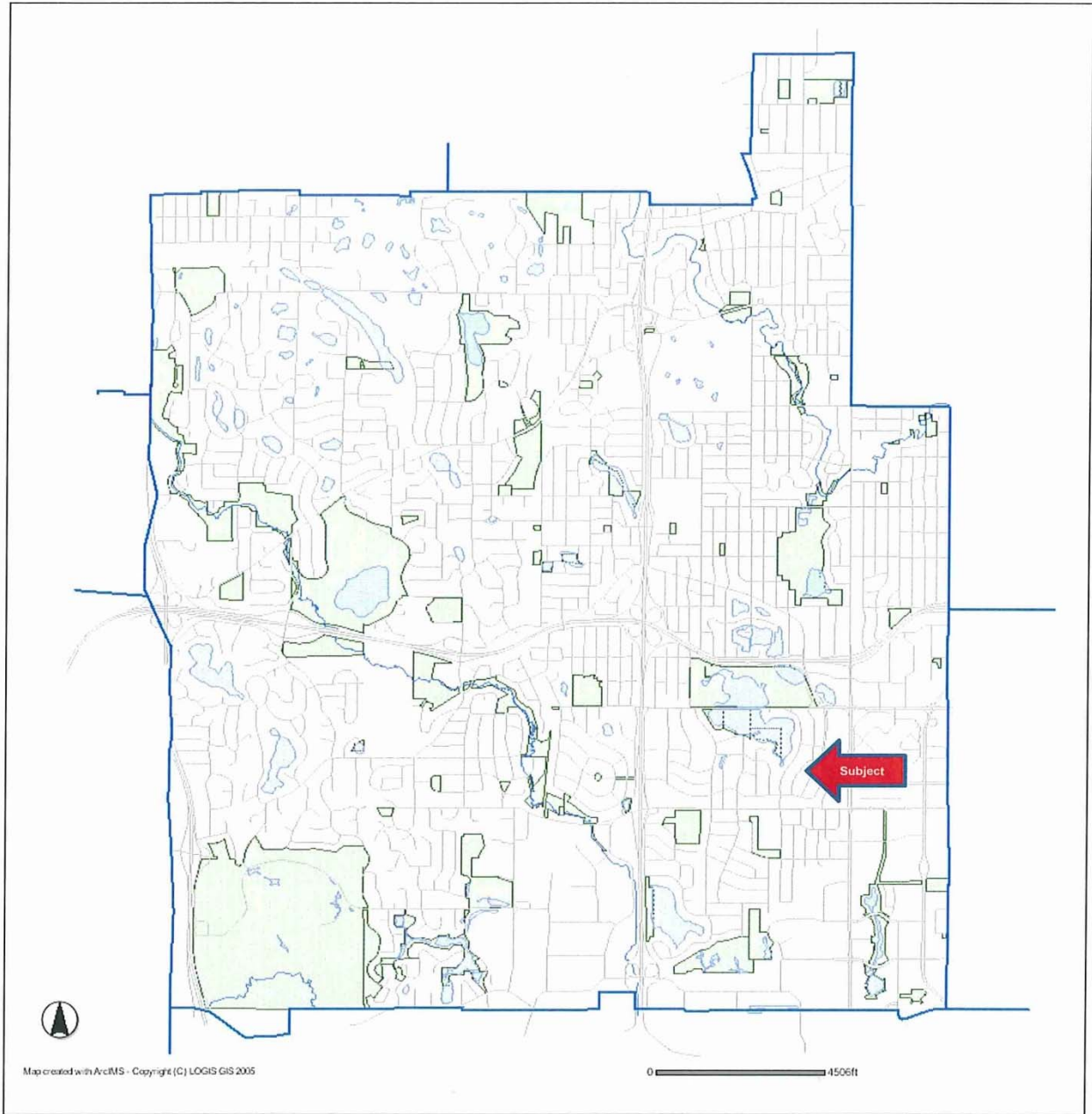
Addenda

The candidate is expected to provide supporting addenda as necessary. Some required addenda, such as photographs, are better placed with the sections and descriptions that they support. Others, such as maps, are better placed at the end of the report. For orientation purposes, all maps in the appendix should include arrows indicating north. Whenever addenda appear, the candidate should remember to reference them accurately in the narrative portions of the report.

Minimum required addenda are:

1. Maps of the area and city showing the location of the subject property.
2. Map of the neighborhood, with neighborhood boundaries drawn, showing the subject property's actual location and zoning.
3. Maps showing location and zoning of all comparable sales, rentals, and gross rent multiplier rentals/sales, as well as the subject property.
4. Plot plan, with all dimensions and areas related to the narrative portion of the report.
5. Building layout of floor plan sketch, with all dimensions and areas related to the narrative portions of the report.
6. Qualifications of the appraiser, including employment, education, and experience.

CITY MAP
City of Edina

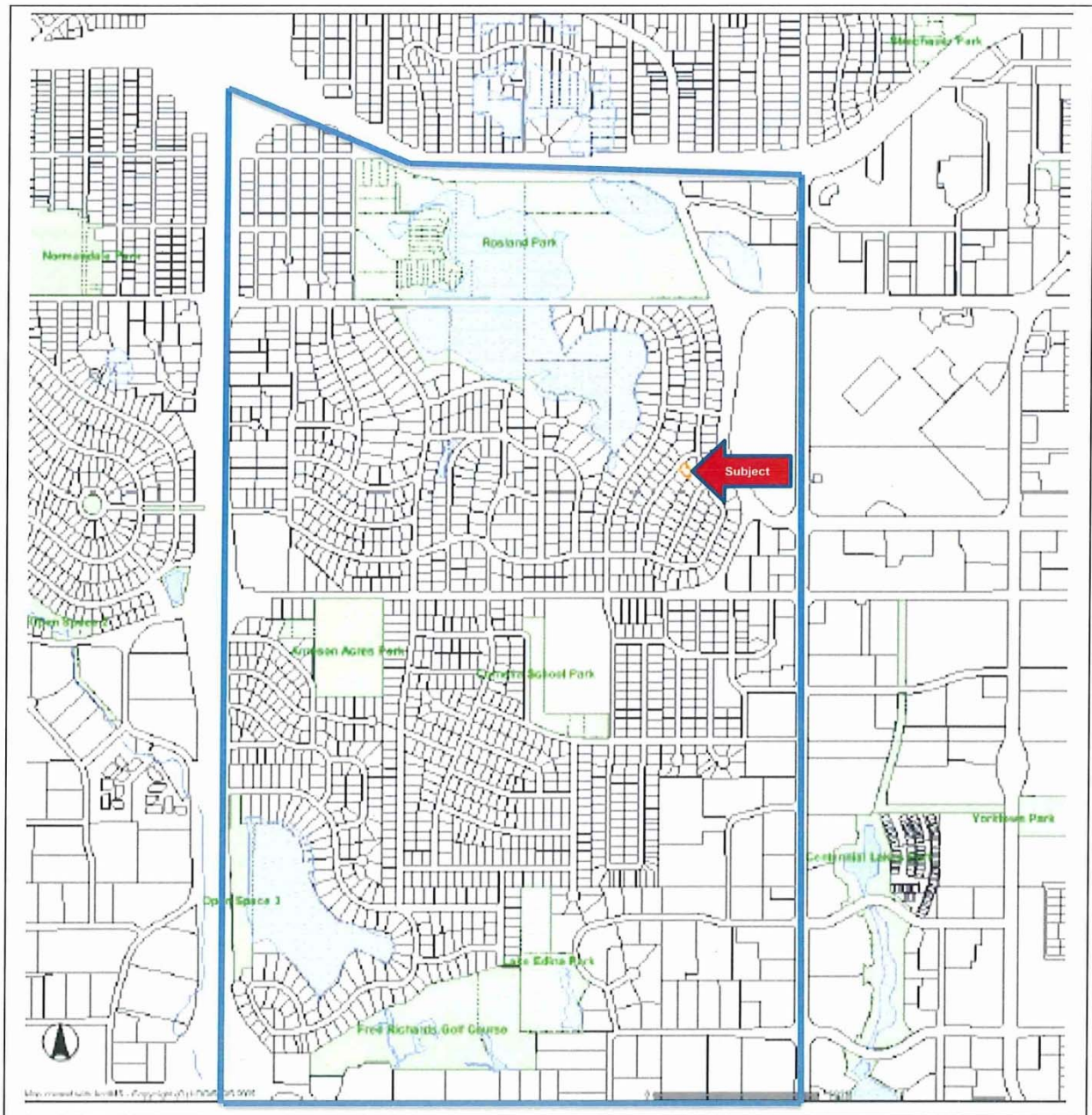


Map created with ArcIMS - Copyright (C) LOGIS GIS 2005

0 4506ft

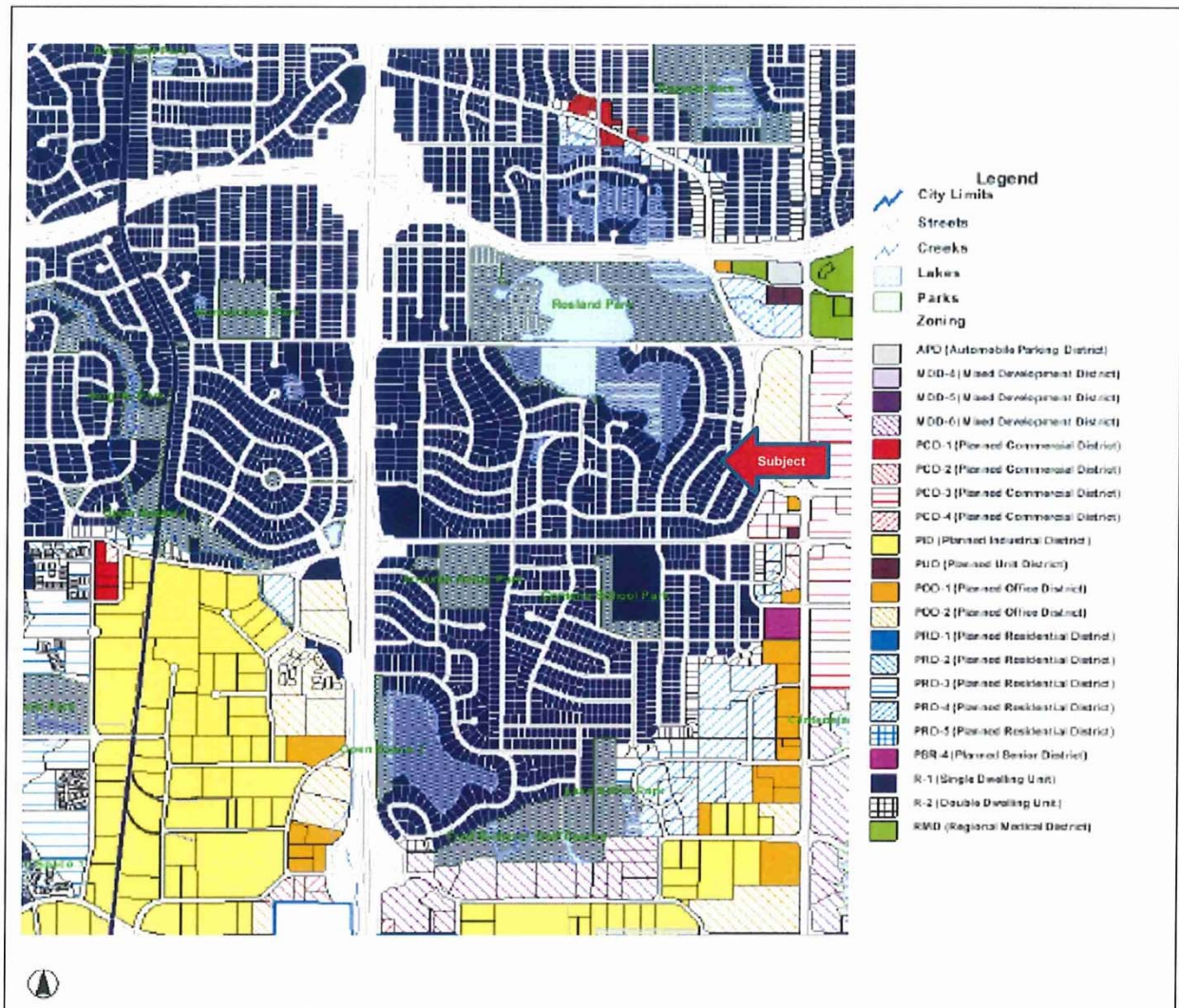
Map Created with ArcIMS – Copyright © LOGIS GIS 2005

NEIGHBORHOOD MAP



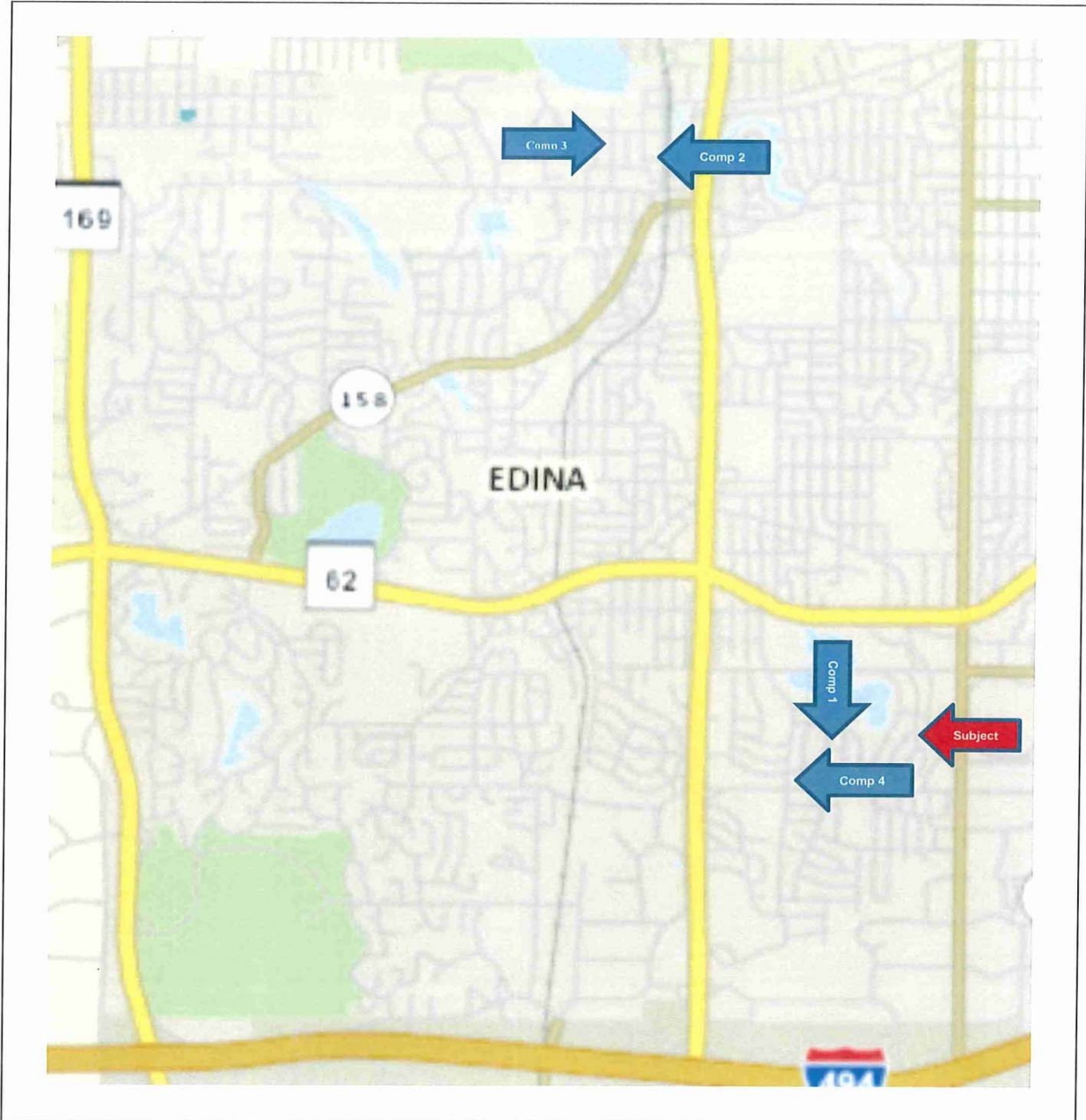
Map Created with ArcIMS – Copyright © LOGIS GIS 2005

ZONING MAP



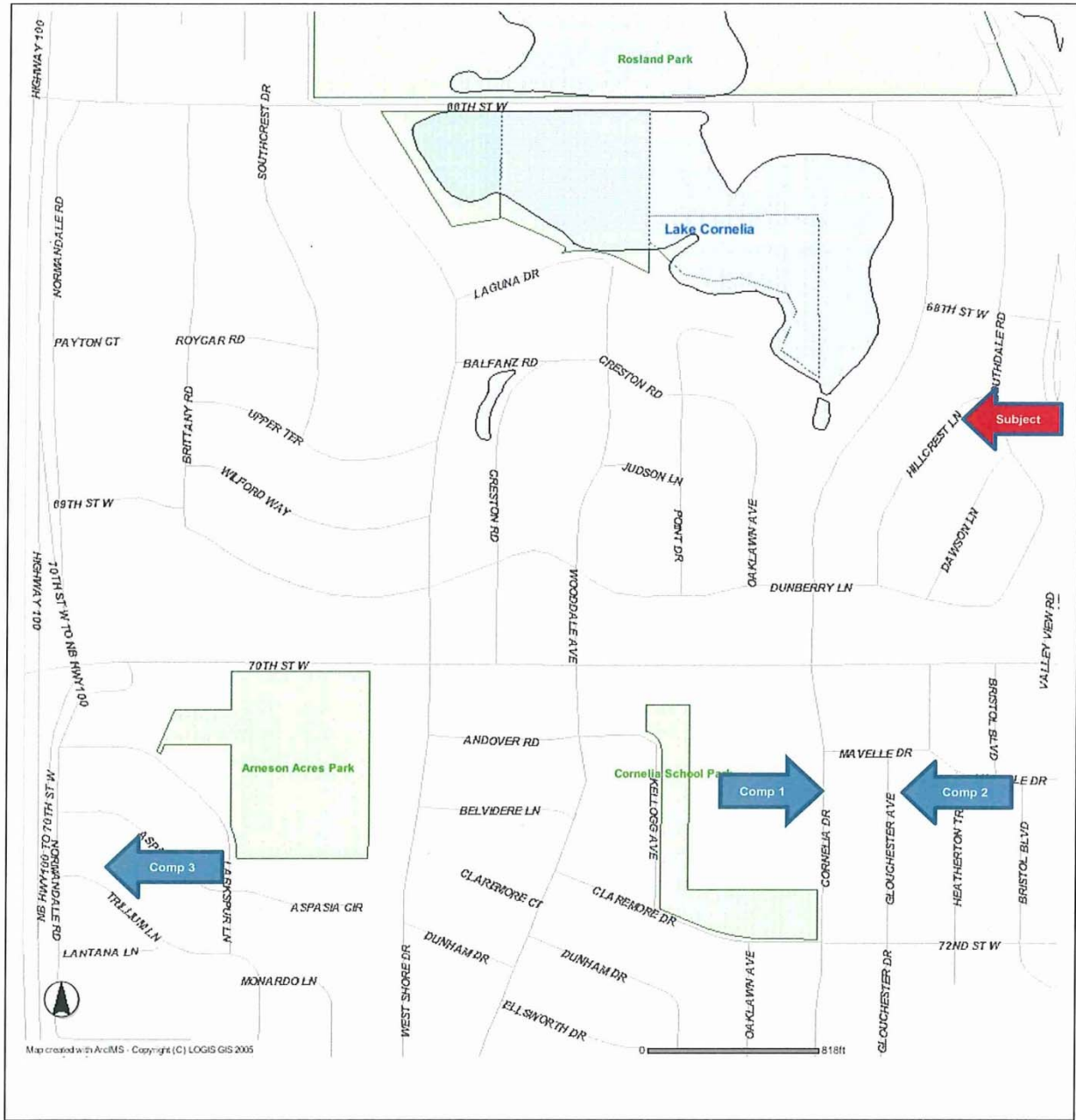
Map Created with ArcIMS – Copyright © LOGIS GIS 2005

COMPARABLE LAND SALES MAP



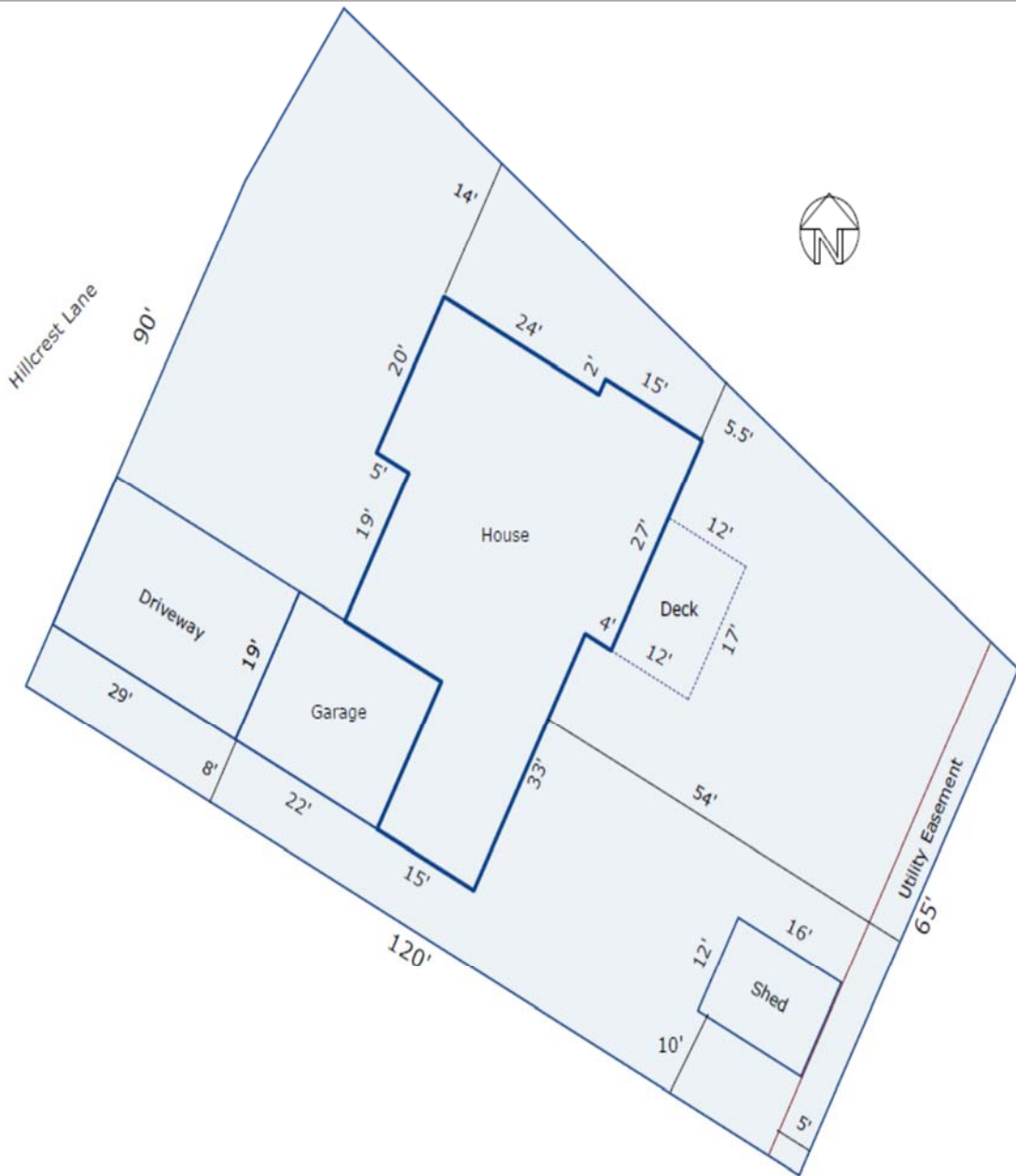
www.co.hennepin.mn.us – Copyright © Hennepin County 2013

COMPARABLE SALES MAP



Map Created with ArcIMS – Copyright © LOGIS GIS 2005

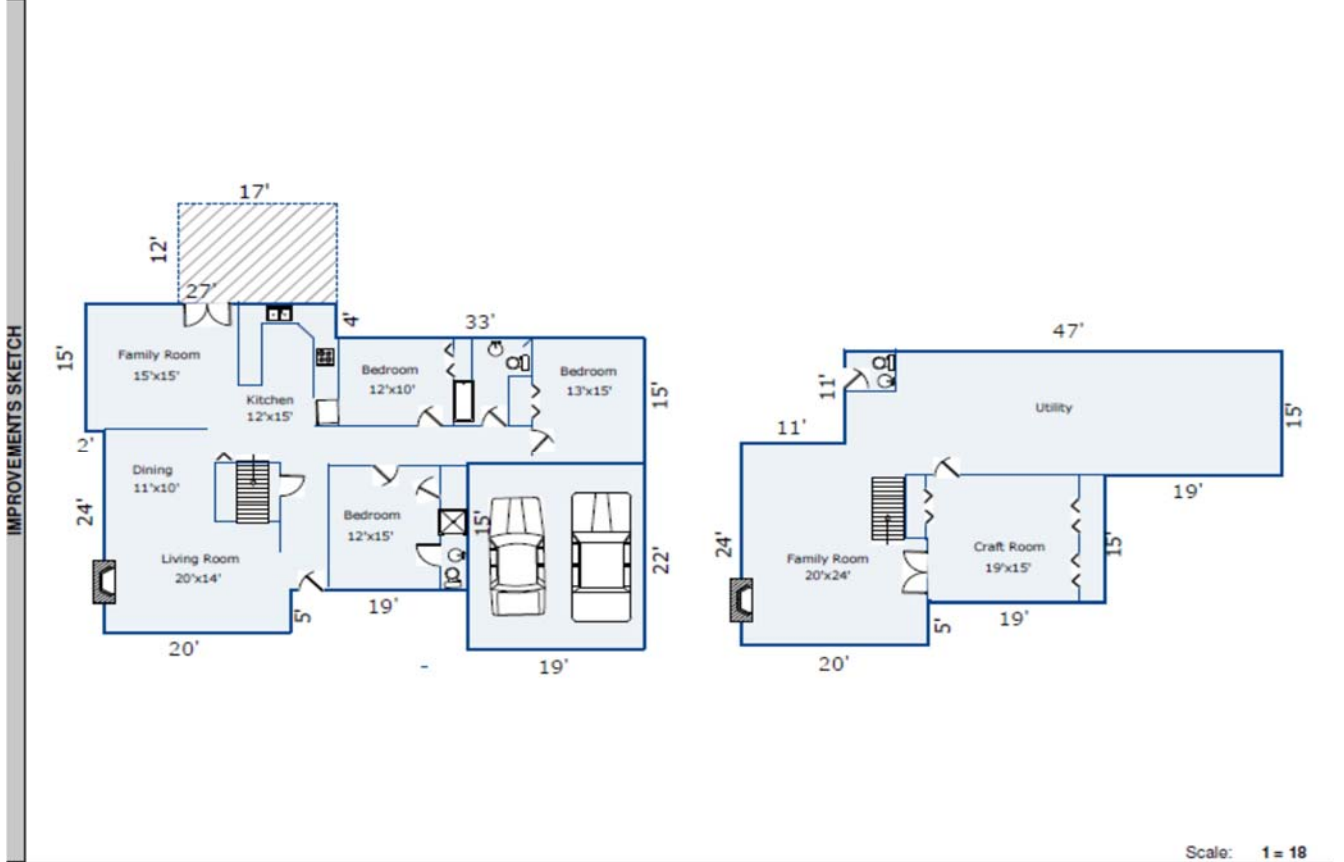
PLOT PLAN



Scale: 1 = 24

BUILDING SKETCH

SUBJECT	Property Address 6905 Hillcrest Lane		
	City Edina	State MN	Zip 55435
	Owner Wicklund		
	Client		
	Appraiser Name SMS	Inspection Date 2/13/2013	



Scale: 1 = 18

	AREA CALCULATIONS SUMMARY					Comment Table 1	
Code	Description	Factor	Net Size	Perimeter	Net Totals		
GLA1	First Floor	1.00	1685.0000	198.0000	1685.0000		
BSMT	Basement	1.00	1434.0000	186.0000	1434.0000		
GAR	Garage	1.00	418.0000	82.0000	418.0000		
P/P	Deck	1.00	204.0000	58.0000	204.0000		
Net LIVABLE Area (rounded w/ factors)					1685	Comment Table 2	Comment Table 3

QUALIFICATIONS OF THE APPRAISER

Overview

The appraiser's qualifications are usually included in the appraisal report as evidence of his or her competence to make such an appraisal.

Qualifications of the Appraiser

The appraiser's qualifications should be placed after the reconciliation section of the report. Qualifications should be listed in a brief and concise fashion. Qualifications may include:

1. Educational background and training
2. Professional experience
3. Business, professional and academic affiliations and activities
4. Some important clients and appraisal assignments

QUALIFICATIONS OF THE APPRAISER

Education:

High School Graduate - 1997
Fulda High School - Fulda, Minnesota
Technical college - 1999 - 2 year degree in Finance and Credit Management
Alexandria Technical College - Alexandria, Minnesota

Appraisal Education:

Minnesota Association of Assessing Officers:
Assessment Laws and Procedures
Appraisal Principles
Appraisal Procedures
Mass Appraisal Basics
Basic Income Approach to Valuation
International Association of Assessing Officers:
IAAO 400 - Assessment Administration

Seminars:

Residential Form Report & Property Case Study Workshop
Ethics for Minnesota Assessors
Reviewing Residential Appraisal Reports
Elements of Lakeshore Valuation
CAMA Roundtable

Professional Affiliation:

Member of Minnesota Association of Assessing Officers

Experience:

Employed with ____ County Assessors Office since January 7, ____.
Promoted to Deputy Assessor January 2, ____.

Designation:

Certified Minnesota Assessor - License #

Demonstration Appraisal Form Report

of a

Single-Family Residence

Located at

(address)

(city, state, zip code)

Prepared for

Minnesota State Board of Assessors

Mail Station 3340

St. Paul, Minnesota 55146-3340

Prepared by

(name)

(address)

(city, state, zip code)

Date of Appraisal

(date)

Letter of Transmittal

(date)

Minnesota State Board of Assessors
Minnesota Department of Revenue
Mail Station 3340
St. Paul, Minnesota 55146-3340

Dear Board Members:

Attached is a demonstration form appraisal report for a single-family dwelling located at (address, city, state, zip code). It is legally described as (legal description).

This report, containing (#) pages and an addendum of exhibits, is prepared as a demonstration of my knowledge of and ability to apply appraisal procedures to an actual property in fulfillment of one of the requirements of the Minnesota State Board of Assessors to achieve the licensure level of (Certified Minnesota Assessor Specialist (CMAS) or Accredited Minnesota Assessor (AMA).

The purpose of this appraisal is to estimate the market value of fee simple title to the unencumbered rights to the subject property, as of (date of appraisal).

Market value as used in the context of this report is defined as:

"...the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus." (Property Assessment Valuation, Kansas City: International Association of Assessing Officers, 2010, page 15).

On the basis of my analysis, which is detailed in the report, I estimate the market value of the subject property as of the appraisal date as: \$.

Sincerely,

(signature)

(candidate's name)

Assessor License Number

SCOPE OF WORK

According to the *Uniform Standards of Professional Appraisal Practice*, it is the appraiser's responsibility to determine the appropriate scope of work necessary to produce credible assignment results. USPAP defines the scope of work as: "The type and extent of research and analyses in an appraisal or appraisal review assignment."¹

The following is an overview of the scope of work performed in completing this appraisal:

- An inspection was completed on February 13, 2013 by the appraiser. The inspection included both the interior and exterior of the subject property. The neighborhood of the subject property was also inspected.
- The highest and best use of the subject property was analyzed.
- Cost data, rental data, and residential sales have been researched and analyzed as to their applicability to the subject property.
- The cost approach; income approach; and sales comparison approach were fully developed and applied.

APPRAISAL REPORT TYPE

This report was prepared as an appraisal report versus a restricted appraisal report.

INTENDED USE AND INTENDED USERS OF THE APPRAISAL

The intended use of this appraisal report is to satisfy the demonstration of knowledge requirements of the Minnesota State Board of Assessors. Therefore, the intended user for this appraisal report is the Minnesota State Board of Assessors.

PURPOSE OF THE APPRAISAL

The purpose of this report is to estimate the market value of the subject property located at 6905 Hillcrest Lane, Edina, Minnesota under the assumptions and definitions specified in this report.

EFFECTIVE DATE OF APPRAISAL AND DATE OF REPORT

The effective date of the appraisal is January 2, 2013. The completion date for this report is March 8, 2013.

DEFINITION OF MARKET VALUE

The term "market value" may have several variations that all share similar traits:

- The buyer and seller are typically motivated.
- Both parties are well informed and acting in their own best interest.
- A reasonable time is allowed for exposure to the open market.
- Payment is made in cash or its equivalent.
- Financing if any, is on terms generally available.

¹ USPAP Definitions, 2014-2015 Edition, U-4

DEFINITION OF MARKET VALUE (continued)

The Minnesota State Statute definition of market value is defined as

“Market Value means the usual selling price at the place where the property to which the term is applied shall be at the time of assessment; being the price which could be obtained at a private sale or an auction sale, if it is determined by the assessor that the price from the auction sale represents an arms- length transaction. The price obtained at a forced sale shall not be considered.”²

The term “market value” as used in this report is defined as:

“...the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus.”³

² Minnesota Statutes, Section 272.0, subdivision 8

³ International Association of Assessing Officers (IAAO), *Property Assessment Valuation* (Kansas City: International Association of Assessing Officers, 2010), 15

ASSUMPTIONS AND LIMITING CONDITIONS

This report is subject to the assumptions and limitations noted below.

1. The final estimate of value developed in this report is as of January 2, 2013. The utilization of the property at that time determined the distribution of the valuation between site and improvements. Any change in the present utilization of the property or the date of valuation may or may not affect the final conclusion of the value that is stated in this report.
2. It is assumed that the legal description, status of title, and other matters legal in nature are correct. No responsibility is assumed by the appraiser for such legal matters, and this appraisal should not be construed as an opinion on such legal matters.
3. In the course of completing this appraisal, information was obtained from public records and from other individuals. Such information is assumed to be correct and reliable. No responsibility is assumed for any errors or omissions in such data.
4. The description and analysis of the improvements in this report are based upon visual inspection of the property. No liability is assumed for any hidden defects that may exist in any structure or improvement.
5. Building sketches, plot plans, photographs, and other such exhibits are included in the report only to aid in visualizing the property. No survey of the property was completed and drawings may not be to correct scale. No liability is assumed through any errors or omissions in such exhibits.
6. The existence of hazardous material, which may or may not be present on the property, was not observed by the appraiser. The appraiser has no knowledge of the existence of such materials on or in the property and is not qualified to detect such substances. The value estimate is predicated on the assumption there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them.
7. The appraiser does not agree to any appearance or the giving of testimony in any court, hearings, or conference unless prior arrangements have been made.

PHOTOGRAPH OF THE SUBJECT



Date of Photo: February 13, 2013

IDENTITY OF THE SUBJECT PROPERTY

The subject property is a single-family dwelling located at 6905 Hillcrest Lane Edina, Minnesota 55444-2051. The subject is a 1,685 square foot single-family one level home with a full basement, built in 1955. The subject includes a kitchen, dining room, living room, family room, three bedrooms, one full bathroom and one three-quarter master bathroom on the main level. There is a 204 square foot deck accessed from the family room. The lower level includes approximately 790 square feet of finished area containing the family room, a craft room, and one-half bath. The unfinished area includes the mechanical area, laundry room and a storage area. There is a two-stall attached garage measuring 418 square feet. The structure is on an irregular shaped lot measuring approximately 90ft x 120ft x 65ft x 120ft containing approximately 9,303 square feet.

According to the last deed issued on the property, it is legally described as Lot 19 Block 6 Southdale First Addition to the city of Edina, Minnesota. The property description can be verified in the Hennepin County Recorder's Office, document number 2534741, filed 07/21/1994. The tax identification parcel number is 30-028-24-44-0053. The fee simple owners of the property are Darryl and M. Sharon Wicklund.

HISTORY OF SUBJECT

The property was built in 1955. The most current sale was on March 1, 1994. Leslie and Emma Brandenburg sold the property to Darryl and M. Sharon Wicklund for \$158,000. To the best of my knowledge, no agreements of sale, options or listings have occurred within the past three years. The home has had normal maintenance. A 251 square foot addition was built on the rear of the house in 2000. At that time a family room was added and the kitchen was remodeled. In 2007 the basement was remodeled. The air conditioner and furnace were replaced in 2008. The road, curb and sewer lines were reconstructed in 2009.⁴ Homes of this style and price range are in high demand. According to its website, the Minneapolis Area Association of Realtors shows the average turnover time was 135 days from listing to sale of the property in 2012. Also, in December of 2012, there was 2.6 months' supply of housing inventory.

⁴ Logis, (2009), Logis Property Data Systems – City of Edina (Version 2.02.01N) [CAMA application software]. January 29, 2013

PROPERTY RIGHTS APPRAISED

In keeping with the purpose and function of this appraisal, the property rights valued are the fee simple ownership rights of the subject property with no restrictions, indebtedness, or other encumbrances. This is the most complete type of ownership. It is ownership of all legal rights. Those rights are referred to as the bundle of rights and include the right to use, sell, rent or lease, enter or leave, give away, and to refuse to do any of the above.

ASSESSMENT HISTORY AND ASSESSMENT LEVELS

The 2013 assessed value for the subject property is \$364,100. This represents approximately ninety-four percent of its market value as estimated in this report. The analysis below indicates that the assessment level of the subject property is proportional and equitable with other properties located within the area.

THREE-YEAR ASSESSMENT AND TAX HISTORY ANALYSIS – SUBJECT PROPERTY

<i>Year</i>	<i>Assessor's Market Value</i>	<i>Taxable Market Value</i>	<i>Tax Capacity Ext. Rate</i>	<i>Annual Real Estate Taxes</i>	<i>Tax Per Square Foot</i>
2012 Pay 2013	\$368,900	\$364,861	1.15641	\$5,054.35	\$3.00
2011 Pay 2012	\$368,900	\$364,861	1.12954	\$4,941.00	\$2.93
2010 Pay 2011	\$374,600	N/A	1.02775	\$4,575.18	\$2.72

ASSESSMENT LEVEL ANALYSIS

	<i>2013 Assessor's Market Value</i>	<i>Sale Price</i>	<i>Sq. Ft.</i>	<i>Sale Date</i>	<i>Assessment Ratio</i>	<i>Payable 2013 Real Estate Taxes</i>	<i>Tax Per Square Foot</i>
Subject	\$364,100	N/A	1685	N/A	N/A	\$5,054.35	\$3.00
Comparable 1	\$367,600	\$389,000	1509	07/23/12	94.5%	\$4,384.62	\$2.91
Comparable 2	\$357,100	\$384,000	1614	12/14/12	93.0%	\$5,016.32	\$3.11
Comparable 3	\$330,100	\$357,500	1476	07/23/12	92.3%	\$4,368.24	\$2.96
Comparable 4	\$401,500	\$426,700	1796	10/11/12	94.1%	\$4,785.76	\$2.66

Comments:

The first chart above displays the subject property's three-year assessment and tax history. The three-year history indicates a slight decrease in the assessor's value, which is a reflection of the relatively stable market in the area of the subject property. The tax rate is increasing and property taxes have increased even though values have decreased. The tax per square foot also indicates that taxes are increasing despite decreasing home values. The tax rate is increasing due to changes in the Minnesota tax system and decreased growth in property values, which is essentially shifting the real-estate tax burden.

Comments: (continued)

The first chart also points out that taxes payable in 2012 and 2013 were based on a taxable market value. This decreased value is due to the homestead market value exclusion. Homesteaded residential property owners receive a value exclusion, which means they pay taxes on only a portion of their home's value. The maximum exclusion of \$30,400 is applied to homes valued at \$76,000 or less. The portion of market value available for exclusion phases out as the market value of the home increases. At a market value of \$413,778, there is no market value exclusion and the homes at this value or higher are taxed at their full market value. The subject property is receiving some benefit from the homestead market value exclusion.

The second chart above is an assessment level analysis in the area of the subject property. The comparables are the same properties used in the Sales Comparable Approach portion of this report. The mean and median assessment ratios of the comparable sales are 93.5 percent and 93.6 percent respectively. The 2013 assessed value for the subject property is \$364,100. This represents approximately ninety-four percent of its market value as estimated in this report. The subject and comparable properties are equally assessed.

CITY AND AREA ANALYSIS

Description and History:

The subject property is located in the city of Edina, in Hennepin County. The city of Edina is a first ring suburb of Minneapolis and is located southwest of the central business district. Edina is bounded by St. Louis Park to the north, Minneapolis and Richfield to the east, Eden Prairie and Minnetonka to the west and Bloomington to the south. Edina is conveniently located within the Interstate 494/694 loop and is readily accessible to the metropolitan area. The City of Edina is divided into four quadrants by Highways 62 and 100. Highway 169 and Interstate 494 are located along the City's western and southern borders respectively. Highways 100 and 169 have a north/south orientation and Highway 62 and Interstate 494 have an east/west orientation.

Edina is the nineteenth largest city in Minnesota and is 98 percent developed. According to the Metropolitan Council, the city has a total area of sixteen square miles. Residential areas comprise the largest portion of the City with 59.5 percent of the land. Parks and recreational areas make up 16 percent of the land area. Commercial and industrial uses comprise 11 percent of the land, with the remainder being institutional (4.7 percent), major roadways (4.3 percent), open water (2.5 percent) and undeveloped land (2.0 percent)⁵.

According to the city of Edina website, Edina was originally settled by Scottish and Irish immigrants and was part of Richfield Township. In 1920, the Morningside development of the Edina Village seceded and became a separate village. The split was the result of a desire for more City services by the Morningside development versus the desire to remain more rural in nature by the rest of the Village. In 1966, the Village of Morningside once again became part of the Village of Edina. In 1981 Edina became a city and was named for a prosperous mill in the area. See addendum, page A2 for the area map and page A3 for the city map.

Population and Demographics:

As of 2010, Hennepin County reported a population of approximately 1,152,425 compared to 1,116,200 for 2000. This is a 3.25 percent increase over the ten year period. During the same time, the city of Edina reported a 2010 population of 47,941 as compared to a 2000 population of 47,425⁶. This is a 1.1 percent increase. Edina's slow growth is because the City is nearly 100 percent developed. The new development is occurring on small tracts of vacant land and the redevelopment of existing properties.

Edina is an older community. The median age of the Edina residents is 45.2 years. This age is substantially higher than medians for Hennepin County (35.9 years) and the entire state (37.4 years)⁵. Edina is also known for being an affluent community, with three of Edina's five zip codes listed in the top 25 wealthiest zip codes in the Twin Cities metropolitan area. The 55439 zip code is ranked number one on the list with a median net worth of \$575,651.⁷

Employment and Economic Factors:

Edina has a diversified economic base with employment exceeding the number of residents. Total employment in 2012 in Edina is estimated by the Metropolitan Council to be 49,883⁸. The major employer within the city is Fairview Southdale Hospital. Other major employers are Jerry's Enterprises Inc., Golden Valley Microwave Foods, Health Risk Management and Macy's.

Edina has numerous retail shopping centers, including Southdale Center. This 1.6 million square foot regional shopping center was the first climate-controlled, fully enclosed mall in the country when it opened in 1956. Other shopping centers include Galleria, Yorktown and Centennial Lakes Plaza. There is also a thriving downtown area at 50th Street and France Avenue, known simply as "50th & France."

The 2012 unemployment rate for Edina was 4.6 percent. This is slightly below the state average of 5.7 percent and substantially below the average national rate of 8.1 percent⁹.

⁵ Metropolitan Council, "Community Profile for Edina," n.d., <http://stats.metc.state.mn.us/profile/detail.aspx?c=02394621> (accessed January 29, 2013)

⁶ US Census Bureau, "American Fact Finder – Community Facts – Edina, Minnesota," n.d., http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=DEC_10_DP_DPDP1 (accessed January 29, 2013).

⁷ Esri and Mary Zenzen, "Top 25 List, Wealthiest ZIP Codes," *Minneapolis/St. Paul Business Journal*, July 8, 2011, p.12.

⁸ Metropolitan Council, "Community Profile for Edina," (accessed January 29, 2013).

⁹ U.S. Bureau of Labor Statistics, "Economy at a Glance," n.d. <<http://www.bls.gov/eag/eag.mn.htm>> (accessed February 1, 2013)

Type of Government and Services:

Edina operates under a Plan "B" council-manager form of government. The City Council determines all matters of policy and appoints a City Manager. The City Council consists of four council people and a mayor. Edina has over 500 full time and part time employees who work within ten departments; Administration, Communications & Technology Services, Community Development, Engineering, Finance, Fire, Human Resources, Parks & Recreation, Police and Public Works. Edina has two Fire Stations strategically placed throughout the city and staffed with 43 full time and part-time firefighters. Police protection is very adequate in Edina; the police department is comprised of 49 sworn officers and 21 non sworn staff. The Police Department had a total of 46,558 incidents in 2012; this is down from 2011 which saw 49,446 total incidents.

The City of Edina is served by six school districts. Independent School District 273 serves the largest portion of the city with an enrollment of approximately 8,300 students in six elementary schools, two middle schools and one high school. The Edina School District regularly places first among Minnesota school districts on standardized reading and math tests¹⁰.

Housing:

As of January 2, 2012, there were a total of 24,392 housing units in the city of Edina. 12,848 of those units were single family residential, 179 units were doubles and triplexes, 6,678 units were condos or townhomes and 4,687 units were apartments¹¹. According to the 2010 census, the homeowner vacancy rate was 2.3 percent and the rental vacancy rate was 11.7 percent¹².

During the ten year interval between the 2000 and 2010 Census, 891 housing units were added, which is an increase of 4.1 percent. The majority of these units came from new apartment (326 units) and condo development (398 units). In 2012, there were 101 new construction permits compared to 57 in 2011 for single family residential units¹³. With very little undeveloped land available in the city of Edina, the majority of the new single family construction permits are the result of tearing down an existing home to build a new home in its place.

The ages of the homes in Edina range from new construction to more than 100 years old. The average market value for a single family home in Edina in 2012 was \$495,955 and the median market value was \$396,300. The average sales price of homes in Edina in 2012 was \$556,926 with 275 qualified home sales and a total of 507 homes sales. In 2011, the average sales price was \$585,819 with 414 qualified sales¹⁴.

Typical houses in the subject property's neighborhood are 1,100 to 2,500 square foot split-levels and 1,100 to 3,000 square foot ramblers. These homes were built in the 1950's and consist of a kitchen/dining room, living room, one or two baths, and two or three bedrooms on the main level. A partially finished basement containing one three-quarter bath, one bedroom, and a small family room, a double attached garage and a deck or patio are typical.

¹⁰Edina Public Schools, "Fast Facts," n.d. <<http://www.edina.k12.mn.us/about-us/welcome/fast-facts>> (accessed February 1, 2013)

¹¹ Logis, City of Edina , January 29, 2013

¹² US Census Bureau, "American Fact Finder," (accessed January 29, 2013).

¹³ Logis, City of Edina , January 29, 2013

¹⁴ Logis, City of Edina , January 29, 2013

Conclusion:

Edina is typical of a first ring suburb in the Twin Cities Metropolitan area in that the population growth is slow due to limited land available for development. The location close to Downtown Minneapolis, good access to the freeway system and public transportation and a strong employment base make Edina a desirable location for living and working. Edina's reputation for excellent public schools makes the City attractive to families with school aged children. Edina also offers 1,550 acres of parkland and open space as well as eight miles of scenic pathways.

The economy in Edina has done better than some of the exurban Hennepin County areas. Edina is home to Fairview Southdale Hospital along with many supporting medical office uses which have not experienced the same market downturn as other commercial businesses. Southdale Center, The Galleria and the 50th & France retail area have continued to draw shoppers in from the surrounding cities. Due to the lack of vacant land, Edina did not experience a large amount of speculative development. As with most communities in the Twin Cities, Edina saw market values for both residential and commercial properties decrease from 2009 through 2011. The trend appears to be changing and values appear to be stabilizing. Edina's good location, excellent schools, popular shopping destinations and diverse business base will continue to insure that Edina is a desirable place to live and work.

NEIGHBORHOOD DESCRIPTION AND ANALYSIS

Delineation of the Neighborhood:

The subject property is in the Cornelia Neighborhood, which is located in the southeast section of the city of Edina. The property was platted into Lots and Blocks by The Dayton Brothers in September 1953. The subject is located in the Southdale First Addition, which consists of 162 lots.

The neighborhood is predominately residential in character consisting of single-family detached homes. The subject neighborhood is bordered on the north State Highway 62; on the south by 77th Street West; on the west by State Highway 100; and on the east by France Avenue South. This neighborhood is close to Fairview Southdale Hospital and Southdale Center. There is convenient freeway access to State Highway 62, State Highway 100 and Interstate 494. This neighborhood has homes that are well maintained and of mid-range value for the city of Edina. A map of the neighborhood is included in the addendum on page A4.

Neighborhood Life Cycle:

Neighborhoods go through a natural cycle of changes which have an effect on the character, desirability, and value of real estate. The four phases in these life cycles are: growth; stability; decline; and revitalization. The subject neighborhood is fully developed and demand remains high which reflects a period of stability.

Description of Improvements:

The neighborhood has blacktop streets with curbs and gutters. The neighborhood is equal to other neighborhoods in the city as it relates to city water, city sewer, city street maintenance, electricity (Xcel Energy), natural gas (CenterPoint Energy), telephone (Comcast), and cable television (Comcast), and garbage pickup once per week (Aspen Waste Systems, Allied Waste, Vierkant Disposal, Waste Management, Suburban Waste).

Zoning of the neighborhood is mainly R-1 (Single Dwelling Unit District). The area along France Avenue has a variety of commercial zoning as well as some PRD-4 (Planned Residential District). The majority of the sites in the neighborhood comply with zoning regulations. The residential sites in the neighborhood vary in shape and size. Most of the single family sites in the neighborhood range in size from 8,000 to 20,000 square feet and most have been landscaped with trees and shrubs. The subject site is a 9,303 square foot interior lot.

The neighborhood was well planned and built up over the sixty years since it was platted. Most homes show pride of ownership, with few, if any poorly maintained homes. The homes range in age from 1940 to 2012. The prevalent home styles in the neighborhood are ramblers and split level homes. There are some two story homes and a few one and a half story homes in the neighborhood as well. The homes in the subject's neighborhood are approximately 1,100 to 3,000 square feet in size and built in the 1950's and 1960's.

Range of Property Values and Monthly Rents:

Dwellings in the neighborhood range in value from \$225,000 to \$1,500,000 with the majority of houses having a value of between \$300,000 and \$450,000. The average sale price of homes in the neighborhood in 2012 was \$431,508 with twenty qualified home sales. In 2011, the average sale price was \$433,286 with twenty-two qualified home sales. The average sale price for qualified single-family residential sales in the city of Edina in 2012 was \$556,926¹⁵.

According to their website, Apartments.com shows rents in the area range from \$795 per month for a one-bedroom apartment to \$1,450 per month for a two-bedroom, one-bathroom apartment. According to their website, Edina Realty shows single-family houses in the city of Edina rent in the range of \$1,700 to \$5,500 per month as of the appraisal date. There are very few rental properties in the neighborhood.

¹⁵ Logis, City of Edina , January 29, 2013

SITE DESCRIPTION

Location:

The subject site is located at 6905 Hillcrest Lane, Edina, Minnesota. It is legally described as Lot 19 Block 6 Southdale First Addition. The site is an interior lot located on the east side of Hillcrest Lane.

Size:

The site has 90 feet of frontage on Hillcrest Lane. The rear of the lot is 65 feet wide. The depth on the northeast side is 120.65 feet and the depth on the southwest side is 120 feet. The site is irregular in shape and has an approximate area of 9,303 square feet. The site is similar in size to other sites directly around the subject. These site characteristics conform to the zoning ordinance and other sites in the neighborhood. A copy of the Site Plan is located in the addendum on page A6.

Features:

The topography of the site is level and has adequate drainage. The landscaping of the subject property is average for the area, with a number of established mid-sized trees and shrubs.

Zoning:

The site is zoned R-1, Single Dwelling Unit District. According to the City of Edina zoning code, allowable uses in the R-1 District are: buildings containing not more than one dwelling unit, publicly owned parks, playgrounds and athletic facilities and publicly or privately owned golf courses. Other uses which are allowed with a conditional use permit are:

- A. Religious institutions
- B. Elementary schools, junior high schools and senior high schools having a regular course of study accredited by the Minnesota Department of Education, preschools and community centers.
- C. Publicly owned and operated civic and cultural institutions including, but not limited to, administrative offices, libraries, public safety buildings and places of assembly.
- D. Golf course club houses.
- E. Parking facilities and other uses which are accessory to conditional uses including, but not limited to, seminaries, private schools, monasteries and nunneries, but excluding preschools, nurseries and day care permitted by paragraph C. Subd. 3 of this Subsection 850.11
- F. Temporary Conditional Uses allowed pursuant to Subd. 5 of Subsection 850.04.
- G. Day Care facilities, pre-schools and nursery schools.
- H. Accessory building(s) totaling 1,000 square feet or more located on property on which a conditionally permitted use exists subject to conditions.

This R-1 zoning requires a minimum lot width of 75 feet and a minimum lot depth of 120 feet. The minimum lot area is 9,000 square feet for single family dwellings. Corner lot requirements are the same as interior lots for size. Setback requirements are the same except for the street side on corner lots is 20 feet. The minimum set back required is 30 feet from the public right-of-way or lot line in the front, 25 feet from the public right-of-way or lot line in the rear. The side yard setback is 10 feet for interior lots and 15 feet from a side street. The subject site meets these requirements by having an average width of 75 feet and a depth of 120 feet with a total area of 9,303 square feet.

	SUBJECT SITE	R-1 ZONING REQUIREMENTS
Lot Size	9,303 sq. ft.	9,000 square feet (minimum)
Lot Width	75 feet (ave)	75 feet (minimum)
Lot Depth	120 feet	120 feet (minimum)
Percentage of Impervious Surface Coverage	24.7 percent	25 percent (maximum)
Height Restrictions	16 feet	30 feet (maximum)
Front Yard Setback for Primary Structure	29 feet	30 feet (minimum)
Side yard Setback for Primary Structure	5 feet on NE 8 feet on SW	10 feet (minimum)
Rear Yard Setback for Primary Structure	48 feet	25 feet (minimum)
Front yard Setback for Accessory Structures	100 feet	30 feet (minimum)
Side yard Setback for Accessory Structures	10 feet	3 feet (minimum)
Rear yard Setback for Accessory Structures	4 feet	3 feet (minimum)

Percentage of Impervious Surface Coverage is calculated based on the primary and ancillary structures and does not include the driveway or sidewalk. Patios and decks are included in this calculation, however, the code allows for an additional 150 square feet of coverage for a deck or patio. The structures, including the deck cover 24.7 percent of the site, which is within the zoning requirements. The subject does not meet the front yard or side yard setback requirements of the zoning code. According to Kris Aaker, Assistant City Planner, the subject is a legal non-conforming use. Mrs. Aaker stated that the code allows for additions to properties that are non-conforming and allows for some encroachment on the setbacks. If the subject were to be demolished, then any new structure would need to conform to the current zoning regulations. A copy of the plot plan is located in the addendum, page A10 and the zoning map is on page A5.

Utilities:

All public utilities and services available in the city of Edina are available to the subject site. Xcel Energy provides electricity, natural gas is provided by CenterPoint Energy, telephone and cable television are provided by Comcast, and garbage pickup is offered once per week by five licensed garbage haulers (Aspen Waste Systems, Allied Waste, Vierkant Disposal, Waste Management, Suburban Waste). The city of Edina provides sewer and water.

FACTORS INFLUENCING REAL ESTATE MARKET.

There are four major factors that affect all properties within a jurisdiction. These factors are: social, economic, governmental and environmental. These factors have been investigated and analyzed on the previous pages at the city level, but they will be summarized below. They will also be revisited at the neighborhood level. Consideration of these factors is essential to completing an appraisal of the subject property because they help determine the characteristics of the market in which the property (and all other properties) will sell and they will influence the market.

1. Social. Social factors include population characteristics and shifts, as well as crime rates and neighborhood cohesiveness. The city of Edina has had slow population growth due to the fact the city is almost entirely developed. The police protection is adequate to prevent criminal activity. Edina's central location in the Twin Cities Metropolitan area, nationally recognized schools and good park system has resulted in a robust real estate market that should continue to surpass many other metro markets and the state.
2. Economic. Economic factors include employment characteristics, income levels, home ownership rates and new construction, for example. Edina has a stable employment base with an educated workforce and good paying jobs. Median income levels in Edina are above the median levels for both Hennepin County and the State of Minnesota.¹⁶ Home ownership rates are also high for the city. Due to the fact that the city of Edina is almost fully developed, new construction rates are not as high as some of the exurban Hennepin County communities, however, there is activity for new construction on existing sites (tear-downs) and for remodeling projects. In the typical life cycle of a city (growth, stability, decline, and revitalization), Edina is in the stability phase.
3. Governmental. Governmental factors include and governmental regulations and services that affect communities. The City of Edina provides many services to its residents, such as utilities and parks and recreation which are desirable. The City's finances are effectively managed and the City's bond rating is Aaa from Moody's Investors Service and AAA from Standard & Poor. Edina has positioned itself to attract and maintain residents and businesses which will positively impact real estate values.
4. Environmental. Environmental factors include the most important one: location. They also include appearance, climate and topography and are most often considered at the specific property level. They can be reviewed at the city level however and Edina scores highly in these areas. Edina is located within 20 minutes of Downtown Minneapolis, the Minneapolis-St. Paul International airport and the Mall of America. There are four major freeway systems within or bordering the City which allow for easy access to the Twin Cities Metropolitan area. The City of Edina has high architectural standards for new residential and commercial development to insure an attractive appearance. Edina's housing market benefits from the city's location and other environmental factors.

¹⁶ US Census Bureau, "American Fact Finder," (accessed January 29, 2013)

HIGHEST AND BEST USE

Definition:

The Appraisal Institute in the Dictionary of Real Estate Appraisal, 5th Edition, defines the concept of highest and best use as:

“The reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity.¹⁷”

The highest and best use of a property as vacant and as improved, the following criteria must be considered:

1. Legally Permissible: The use must conform to zoning ordinances, building codes and other restrictions.
2. Physically Possible: The physical attributes of site determine its' development potential.
3. Financially Feasible: The use must provide a profitable return on investment.
4. Maximally Productive: The use that provides the highest rate of return on initial investment.

In each case the existing use may or may not be the same from the site's highest and best use. Each type requires a separate analysis and can be determined as though vacant and as improved by using the preceding criteria.

HIGHEST AND BEST USE OF THE SITE AS THOUGH VACANT:

Legally Permissible:

The subject site is restricted by local zoning ordinances. This defines what is legally permissible to the use of the property. The subject site zoning is R-1, Single Dwelling Unit District. This is a low density residential district that is intended to accommodate single-family detached housing within this part of the city. Possible primary and conditional uses include:

- Single Family Residential
- Publicly owned parks
- Golf Courses
- Religious institutions
- Schools
- Publicly owned buildings
- Golf course club houses
- Parking facilities which are accessory to a conditional use
- Day care facilities, preschools and nursery schools
- Accessory buildings

Legally, all of the preceding uses are allowed and therefore options for potential highest and best use of the site. As indicated previously, the subject's lot size is 9,303 square feet with dimension of 90ft x 120.65ft x 65ft x 120ft. Because of the size and shape of the subject site, some of the permitted uses listed above would be physically impossible. In observing the subjects surroundings of single-family structures, it would be unlikely the city would grant a conditional use permit for any of the above uses.

Physically Possible:

Physically the subject site is irregular with a street frontage of 90 feet, a rear frontage of 65 feet a northeast boundary of 120.65 feet and a southeast boundary of 120 feet. The subject property contains 9,303 square feet. The topographical features and soil conditions would not require any correction before construction could occur. There are no easements that would interfere with the development of the site if it were vacant. The subject site is physically capable of supporting development for a detached single-family residence.

¹⁷ Appraisal Institute, *The Dictionary of Real Estate Appraisal, 5th ed.* (Chicago: Appraisal Institute, 2010), 93.

Financially Feasible:

The financial feasibility analysis must consider market demands for the types of improvements that are both physically possible and legally permissible. Considering the above listed zoning allowances and the physical possibility of each use it is determined that single-family development would be the most feasible to research. There were 104 new residential construction permits in the City of Edina in 2012 compared to 62 permits in 2011, a 67.7 percent increase. According to the Minneapolis Association of Realtors, there were 1,280 new listings in 2012 and 1,256 new listings in 2011, a 1.9 percent increase. The closed sales were up 36.2 percent with 952 closed sales in 2012 and 699 closed sales in 2011. The December 2012 Months' Supply of Inventory was down to 2.6 months compared to 6.1 months in December 2011¹⁸. Generally, six months of housing supply is considered a balanced market. With only a 2.6 month supply of homes, Edina is experiencing a housing shortage, which indicates that the demand for single family housing is strong and developing the subject site with a single-family residence is financially feasible.

Maximally Productive:

For the highest and best use to be maximally productive it must first meet the preceding criteria and produce the highest return given current market conditions and demands. The subject site, as improved with a single-family residence, must meet current setback requirements that limit the potential size of a dwelling. To be maximally productive the improvement must also conform to surrounding dwellings in terms of quality of materials, quality of construction workmanship and architectural style. Typical houses in the subject property's neighborhood are 1,100 to 2,500 square foot split-levels and 1,100 to 3,000 square foot ramblers. The typical quality of construction is average. Dwellings in the neighborhood range in value from \$225,000 to \$1,500,000 with the majority of houses having a value of between \$300,000 and \$450,000. After surveying the market and considering the principles of supply and demand, substitution, balance and conformity it would appear that development of the subject's site, as though vacant, with a single-family dwelling would be most maximally productive.

Summation:

In testing each of the possible uses to determine which meet the criteria of legally permissible, physically possible, financially feasible and maximally productive it has been concluded that the highest and best use of the subject site, as though vacant, is with the construction of a single-family residence.

¹⁸ Minneapolis Area Association of Realtors, "Local Market Update – December 2012, Edina," n.d. <<http://www.mplsrealtor.com/downloads/lmu/2012-12/Edina.pdf>> (accessed 1/29/2013).

HIGHEST AND BEST USE OF THE SUBJECT AS IMPROVED:

General:

The same criteria used for highest and best use of the site as if vacant can be applied to the existing structure to determine the highest and best use as improved. It includes an examination of potential uses of the subject property to determine which are legally permissible, physically possible, financially feasible and maximally productive.

Legally Permissible:

The existing improvements are a legal non-conforming use according to the City of Edina Community Development department and are thus legally permissible.

Physically Possible:

There is no apparent soil condition that needs correction. The subject site is currently improved with a single-family residential property indicating that the physically possible requirement is met.

Financially Feasible:

The financial feasibility analysis looks at the overall return of the improvements to the total value of the property. Subject's improvements do conform to other homes in the neighborhood in age, design, size and overall condition. Subject's location and price range is in demand and financing is readily available from a variety of sources. Based on the information from the Minneapolis Area Association of Realtors, the average market time for homes in Edina was 135 days in 2012 which was a decrease of 11 days over 2011. All homes in subject's neighborhood have sold for a higher amount than comparable vacant sites indicating that development with a single-family residence is the most financially feasible possibility.

Maximally Productive:

The final test to determine the highest and best use of the subject property as improved is to determine which use is maximally productive, assuming the preceding criteria have been met. The subject is an average sized, rambler, three-bedroom dwelling with a two-car attached garage and is considered to be in average overall condition. This layout is very homogenous with surrounding homes in neighborhood and would provide a good return on investment over and above the value of the site alone. With the information above, it is concluded that the maximally productive use of the subject property as improved is single-family residential.

Summation: The highest and best use of the subject site as improved is as a single-family residential house. This conclusion is based on the four tests of legally permissible, physically possible, financially feasible and maximally productive as well as the remaining economic life of the subject's site improvements.

HIGHEST AND BEST USE CONCLUSION:

As of January 2, 2013, the highest and best use of the subject site as both vacant and improved is its present use as single family residential. This conclusion will be the basis of the following three approaches to market valuation and the reconciliation of the final value estimate.

IMPROVEMENTS DESCRIPTION

General:

The subject site is improved with a one story home built in 1955. As of the date of the appraisal, the home is fifty-eight years old. The home has two levels, one level above grade and one level below grade. The foundation is irregular in shape and consists of 1,434 square feet. A thirteen foot by fifteen foot addition was added to the back of the house in 2000. The addition was constructed over a crawl space. The main level has an area of 1,685 square feet. There is a nineteen by twenty-two foot attached garage with no interior access to the house. The total garage size is 418 square feet. There is a seventeen by twelve foot deck on the rear of the home with steps leading to the back yard. A four foot high chain link fence encloses the back yard. A computerized sketch of the subject property is located in the addendum on page A11.

Exterior Description:

The foundation of the subject property is eight by sixteen-inch concrete blocks, twelve courses high making the basement ceiling height eight feet; this is classified as a full basement. The basement and garage floors are poured concrete and show no sign of excess wear or severe cracking. The foundation is capped using two-inch by ten-inch floor joists sixteen inches on center and covering the joists is plywood sub-flooring with underlayment on top of the sub-flooring. The house and garage are framed using two-inch by four-inch studs sixteen inches on center. The wall sheathing is asphalt impregnated sheathing. The roof is framed with two-inch by eight-inch trusses, with plywood sheathing as a cover.

The exterior of the house is metal lap siding with a brick fascia extending eight feet high along the northwest twenty feet of the house. The soffit and fascia are aluminum and there are aluminum gutters and downspouts. The roof is gable style, covered with asphalt shingles that were replaced in 2000 and are in good condition as of the date of inspection. There is a seventeen by twelve foot deck on the rear of the house. The deck is constructed with pressure treated posts with concrete footing, pressure treated joists and composite decking and railings. The deck was added in 2000 and is in good condition. There is also a twelve foot by sixteen foot shed framed with two-inch by four-inch wood studs with plywood sheathing. The roof of the shed is framed with two-inch by four-inch trusses with plywood sheathing and asphalt shingles. The concrete driveway and sidewalk are in good condition.

The lower level windows are awning style along the rear of the house. The lower level windows in the family room were replaced with glass block in 2007. The main floor windows are double hung except for the master bedroom which has a fixed center window with casement flankers; all have insulated glass and attached screens. The front entry door is a steel insulated door with a storm door. The back door is a glass French door with an insulated double glass pane and sliding screen door attachment. All windows and doors are in average condition.

Interior Description:

The interior partitioned walls are standard two-inch by four-inch construction covered with sheetrock, lathe and plaster. The exterior walls and ceiling are insulated with kraft faced fiberglass insulation with a vapor barrier and covered with sheetrock, lathe and plaster. The interior doors are oak hollow core doors, the trim is oak and the kitchen cabinets are maple.

Main Floor: Upon entering the front door of the house you are standing in a small foyer with a coat closet down the hallway and wood laminate flooring. To the left is the living room with a wood burning fireplace that has a six foot wide face of brick with an oak mantle. The living room has carpeted floors, painted plaster walls and a painted race-track ceiling. The ceiling has some cracks and the plaster is chipping off in some areas. The living room is open to the formal dining room which mirrors the living room in its finishes. There is a built in china cabinet along one wall in the dining room. The kitchen was updated in 2000, when the family room addition was added to the house. The kitchen and family room have wood laminate flooring and painted walls. The family room was constructed with sheetrock walls and does not have the lathe and plaster which is present in the remainder of the main level. The built-in appliances include a gas range, microwave, dishwasher, and garbage disposal. The cabinets are maple and the countertops are laminate. The kitchen is u-shaped with a peninsula between the kitchen and family room which are open to each other. The door leading to the deck is in the family room. The stairway to the basement is located off the kitchen area, next to the pantry. Down the hall, to the right of the front entry are the bedrooms and bathrooms. The master bedroom is located in the front of the house. The master bedroom has carpeted floors, painted walls and ceiling and oak doors and trim. There is a small three quarter bathroom off the master bedroom. The bathroom has the original ceramic tile floors, wainscot and shower surround. There is a small pedestal sink and a toilet. Across the hall, at the rear of the house is the second bedroom. This is the smallest bedroom and it has carpeted floors, painted walls and ceiling and oak doors and trim. The full bathroom is to the right of this bedroom and between the two rear bedrooms. The full bath has the original

ceramic tile floor, wainscot and tub surround. There is an oak vanity with cultured marble top and a mirror along with the tub and toilet. The third bedroom is located at the end of the hall and has carpeted floors, painted walls and ceiling and oak doors and trim.

Lower Level: Going down the stairs, on the left, is a craft room with glass French doors, carpet over the concrete, painted sheetrock walls and acoustical tile ceiling with recessed lights. There is ample storage space with a closet along the wall shared with the stairs and one along the opposite wall. To the right of the stairs is a family room with a wood burning fireplace that has a six foot wide face of brick with oak mantle. There is carpet over the concrete, painted sheetrock walls and acoustical tile ceiling with recessed lights. The craft room and family room were remodeled 2007 and are in good condition. At the rear of the house there is a small half bath with vinyl tile flooring, painted sheetrock walls and ceiling, a toilet and pedestal sink. As you continue past the half bath, there is a large laundry/mechanical room. The floor is painted concrete, the walls are painted concrete block and the ceiling is not finished.

Equipment and Mechanical Systems:

Heating and Cooling: The house is heated by a Bryant Plus 955 high efficiency gas-fired forced air furnace with a humidifier. The house is cooled by a central electric air conditioner located on the rear exterior of the home. Both the furnace and air conditioner were replaced in 2008. The heating and air conditioning system have sheet metal ductwork with an adequate number of heat registers and cold air returns.

Plumbing: The kitchen has a double stainless steel sink with a garbage disposal. The main floor master bathroom has a porcelain enamel pedestal sink, porcelain enamel toilet and a shower stall with a ceramic tile surround. The main floor full bathroom has a cultured marble sink, a porcelain enamel toilet and a porcelain enamel tub with a ceramic tile shower surround. The lower level bathroom has a porcelain enamel pedestal sink and a porcelain enamel toilet. There is a plastic laundry tub in the utility room. A 40-gallon gas water heater supplies the hot water. On the exterior there are two water faucets, one on the front and one on the rear. The house is connected to public sewer and water and all plumbing fixtures are operational and built to conforming building codes.

Electrical: The electrical service is 200 amperes of electricity with the service box with circuit breakers located in the laundry/mechanical room on the rear wall. The interior wiring meets building code requirements and has an adequate number of electrical outlets throughout the house.

Driveway:

The subject property has a nineteen-foot by twenty-nine-foot concrete driveway. The driveway is in good condition.

Fence:

There is a 6 foot chain link fence on the east or rear yard of the subject property. The fence is in good condition.

Deck:

There is a seventeen by twelve foot deck on the rear of the house. The deck is constructed with pressure treated posts with concrete footing, pressure treated joists and composite decking and railings. The deck was added in 2000 and is in good condition.

Condition of Improvements:

The overall condition of the subject improvements is considered average. The subject is typical quality and style for the neighborhood and conforms well.

Actual Age:

Actual age as defined by the Appraisal Institute as: "The number of years that have elapsed since construction of an improvement was completed; also called historical or chronological age¹⁹." The subject property was constructed in 1955 therefore; the actual age of the property is fifty-eight years.

Effective Age:

Effective age is quoted by the Appraisal Institute as: "The age of property that is based on the amount of observed deterioration and obsolescence it has sustained, which may be different from its chronological age²⁰." Depending on the condition of the property, the effective age of a structure may differ from its actual age. If a home has been well maintained or updated, it will normally have an effective age typically less than the actual age and on contrast, if a home has been poorly maintained, it may have an effective age higher than the actual age.

The subject property is in average overall condition and has been well maintained. The subject property has had updates to the kitchen, basement, mechanical systems and the roof. Based on the overall condition of the subject property and market analysis of similar dwellings in subject neighborhood, the effective age of the subject property is estimated at thirty-four years.

Remaining Economic Life:

The Appraisal Institute defines remaining economic life as: "The estimated period during which improvements will continue to represent the highest and best use of the property; an estimate of the number of years remaining in the economic life of the structure or structural components as of the date of the appraisal; used in the economic age-life method of estimating depreciation²¹."

The following chart illustrates how the economic life was estimated using three sales in the area, located on comparable sites.

	Sales Comp #1	Sales Comp #2	Sales Comp #3
Sale Price	\$389,000	\$357,500	\$426,700
Sale Date	07/23/2012	07/23/2012	10/11/2012
Site Value	(\$243,000)	(\$243,000)	(\$243,000)
Improvement Value	\$146,000	\$114,500	\$183,700
RCN (Improvements)	\$219,300	\$207,500	\$246,500
Indicated Value Improvements	(\$146,000)	(\$114,500)	(\$183,700)
Accrued Depreciation	\$73,300	\$93,000	\$62,800
Percent Depreciation	33.42%	44.82%	25.48%
Indicated Effective Age	35	40	25
Percent Annual Depreciation	0.955%	1.121%	1.019%
Estimated Total Economic Life (Years)	104.71	89.21	98.14
Estimated Annual Depreciation	1%		
Average Effective Age (rounded)	33		
Median Effective Age	35		
Average Total Economic Life (rounded)	97		
Median Total Economic Life (rounded)	98		

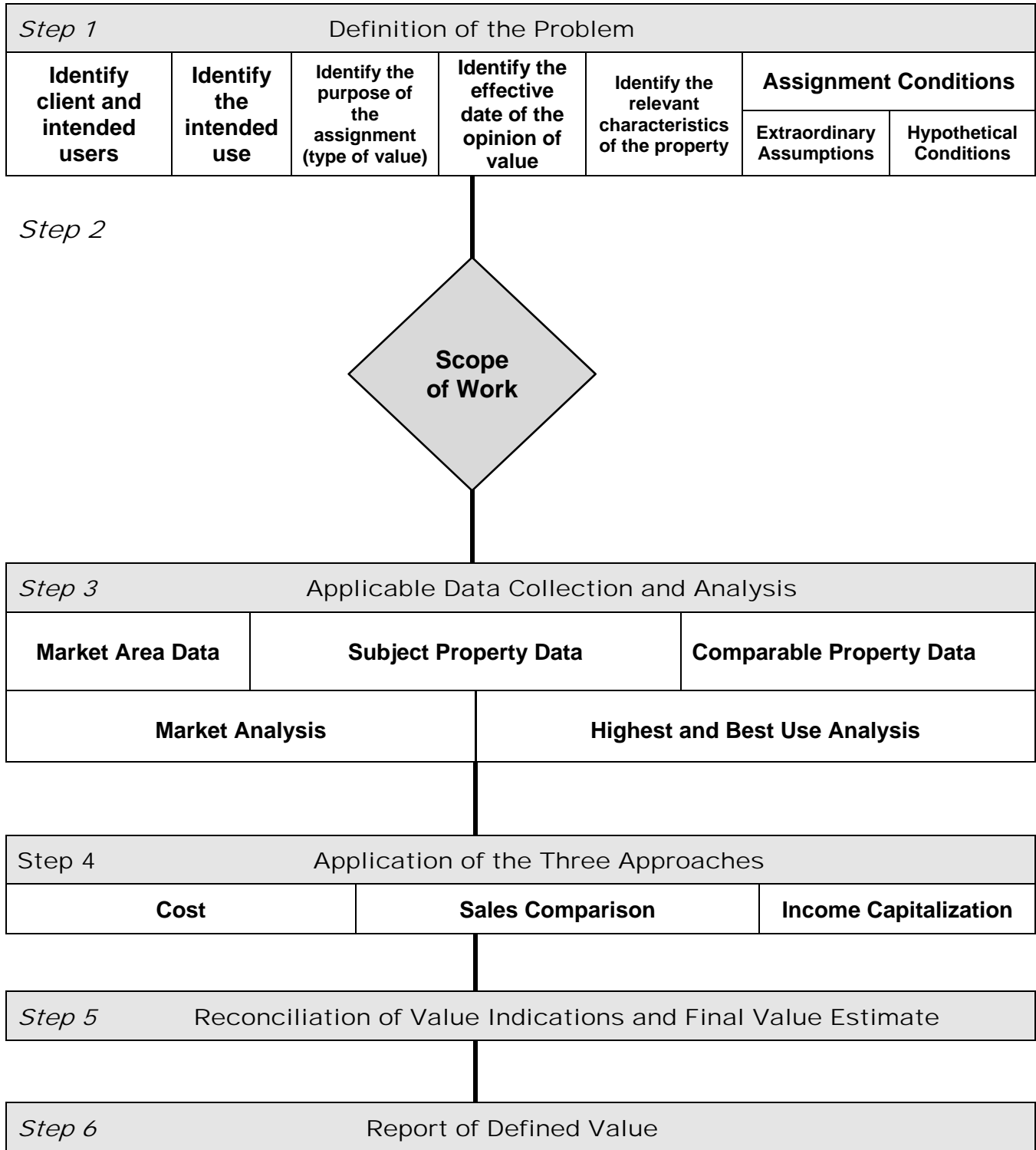
The indicated mean economic life is 97 years rounded, which supports the use of an economic life of the subject property of 97 years. Therefore, with an effective age of 34 years and an economic life of 97 years, the remaining economic life of the subject property is 63 years.

¹⁹ Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 3.

²⁰ Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 65.

²¹ Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 167.

THE APPRAISAL PROCESS



COST APPROACH

The cost approach relies on the principle of substitution as the basis for estimating market value. *The Dictionary of Real Estate Appraisal* defines the cost approach as "A set of procedures through which a value indication is derived for the fee simple interest in a property by estimating the current cost to construct a reproduction of (or replacement for) the existing structure, including an entrepreneurial incentive, deducting depreciation from the total cost, and adding the estimated land value²²."

Appraising Residential Properties lists eight steps in the cost approach. "An appraiser:

1. Estimates the value of the site as though vacant and available to be developed to the highest and best use.
2. Estimates the direct (hard) and indirect (soft) costs of the improvements as of the effective appraisal date.
3. Estimates an appropriate entrepreneurial incentive or profit from analysis of the market.
4. Adds estimated direct costs, indirect costs, and the entrepreneurial incentive or profit to arrive at the total cost of the improvements.
5. Estimates the amount of depreciation in the structure and, if necessary, allocates it among the three major categories: physical deterioration, functional obsolescence, and external obsolescence.
6. Deducts the estimated depreciation from the total costs of the improvements to derive an estimate of their depreciated cost.
7. Estimates the contributory value of any site improvements that have not already been considered. (Site improvements are often appraised at their contributory value, i.e., directly on a depreciated –cost basis.)
8. Adds the site value to the total depreciated cost of all improvements to arrive at the indicated value of the property²³."

Site Valuation:

In valuing the site using the cost approach, the first step is estimating the site value as if vacant. Based on the highest and best use analysis of the subject, it was determined that the highest and best use of the site, as though vacant, would be single-family residential. Even though the subject neighborhood is a well-established neighborhood, there were two vacant lot sales available for analysis. Other lot sales from comparable neighborhoods are also used. The sales of these vacant parcels are all within twenty-one months of the assessment date. The sites have all been improved or are in the process of being improved with single-family residential homes since their date of sale. Sewer, water, storm sewer, streets, curbs and gutter improvements are included in the sale prices. A map of comparable land sales is located in the addendum on page A7. The four sales are identified as follows:

Site Sale #1

Location: 4425 Judson Lane

Date of Sale: 04/15/2011

Selling Price: \$300,000 CRV # 33705

Recording Data: Document #4852678; Date: 04/27/2011

Legal Description: Lot 2 Block 3 Creston Hills

Type of Deed: Warranty Deed

Seller: Carol G. Mearkle

Buyer: Paul J. and Mary J. Zdechlik

Verification: Verified with seller

Parcel Identification: 30-028-24-34-0008

Description of Property: Site sale #1 is located west of the subject, in the same neighborhood. This site is an interior lot with local traffic only and comparable to the subject. Since the sale, a new two-story home has been constructed on the site.

²² Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 47.

²³ Appraisal Institute, *Appraising Residential Properties*, 4th ed. (Chicago: Appraisal Institute, 2007), 257-58

Site Sale #2

Location: 5205 – 48th Street West

Date of Sale: 06/26/2012

Selling Price: \$235,000 CRV # 54126

Recording Data: Document #9814612; Date: 07/12/2012

Legal Description: Lot 3 Block 0 Edina Terrace

Type of Deed: Warranty Deed

Seller: Nancy B. Laubignat and Luverne Hosek

Buyer: Zenith Partners, LLC

Verification: Verified with seller

Parcel Identification: 28-117-21-24-0034

Description of Property: Site sale #2 is located approximately three miles northwest of the subject. This is an interior lot with local traffic only. Homes in this neighborhood are similar in age and quality to the subject neighborhood. Since the sale, the site is in the process of being improved with a two story home.

Site Sale #3

Location: 4516 Rutledge Avenue

Date of Sale: 03/27/2012

Selling Price: \$220,000 CRV # 49673

Recording Data: Document #9768128; Date: 03/28/2012

Legal Description: Lot 5 Block 4 Clevelands Subdivision of Emma Abbott Park

Type of Deed: Warranty Deed

Seller: Mark H. Beneke and Linton Ann Cooley

Buyer: Jon D. and Anne D. Gotte

Verification: Verified with seller

Parcel Identification: 28-117-21-23-0071

Description of Property: Site sale #3 is located approximately three miles northwest of the subject. This is an interior lot with local traffic only. Homes in this neighborhood are similar in age and quality to the subject neighborhood. Since the sale, the site has been improved with a two story home.

Site Sale #4

Location: 6913 West Shore Drive

Date of Sale: 05/04/12

Selling Price: \$181,000 CRV #52061

Recording Data: Document # 49582417; Date: 05/25/2012

Legal Description: Lot 5 Block5 Woodhill Addition

Type of Deed: Warranty Deed

Seller: Robert E. Smith

Buyer: Alex M. and Kathryn J. Swiggum

Verification: Verified with seller

Parcel Identification: 30-028-24-34-0077

Description of Property: Site sale #4 is located approximately one-half mile southwest of the subject in the same neighborhood. This is a corner lot located on a collector road. Since the sale, the site has been improved with a two story home.

Elements of Comparison Analysis					
	Subject	Site Sale #1	Site Sale #2	Site Sale #3	Site Sale #4
Address	6905 Hillcrest Lane	4425 Judson Lane	5205 48 th Street West	4516 Rutledge Avenue	6913 West Shore Drive
Lot Size	9,303 Sq. Ft.	12,533 Sq. Ft.	10,192 Sq. Ft.	7,341 Sq. Ft.	10,915 Sq. Ft.
Dimension	90' x 120.65' x 65' x 120' Irregular	79' x 160.6' x 77.5' x 155.57' Irregular	91' x 112' Rectangular	50' x 145' Rectangular	85' x 130' Rectangular
Location	Interior Site	Interior Site	Interior Site	Interior Site	Corner Site
Street Type	Neighborhood	Neighborhood	Neighborhood	Neighborhood	Collector
Topography	Level	Walkout	Level	Level	Level
Landscaping	Average	Average	Average	Average	Average
Sale Price	N/A	\$300,000	\$235,000	\$220,000	\$181,000
Sale Date	N/A	4/15/2011	06/26/2012	03/27/12	05/04/12
Sale Term	N/A	Cash	Cash	Cash	Cash

ESTIMATION AND EXPLANATION OF ADJUSTMENTS

Market Conditions:

All four comparable sites were sold before the appraisal date. The market abstraction of the market conditions adjustment is based upon repeat sales of single family homes as presented in the sales comparison section of this report, pages 40-41. This analysis resulted in a market conditions adjustment of 5.96 percent per year or 0.50 percent per month. The market conditions adjustment derived from these repeat sales will be made to each of the comparable sales to equalize the sale prices of each with the effective date of the appraisal.

TIME ADJUSTMENT = 0.50% PER MONTH

Financing Terms:

No adjustment for financing is necessary as all four comparables sold for cash to the seller.

Size:

After analysis of the comparable site sales, and based on the sites' square footages and the indicated time adjusted sale prices, it has been determined that these sites were purchased strictly as building sites with little regard to actual square footage. None of the comparable sales are large enough to allow for subdivision. Based on this analysis, no adjustments for size were made.

Location:

Comparable #1 and Comparable #4 are located in the subject neighborhood. Comparable #2 and Comparable #3 are located in similar neighborhoods to the subject. The highest and best use of the subject property and all four of the comparable site sales is single-family residential. The four sites have been improved since their sale dates and have similar utility. All of the comparables are interior sites with the exception of comparable #4, which is a corner site. The following two sales from the market were analyzed to determine the adjustment necessary for a corner lot.

Address	4529 Rutledge Ave	6017 Code Ave
Location	Interior Lot	Corner Lot
Sale Price	\$235,000	\$256,700
Sale Date	08/23/2011	06/13/2011
Market Adjusted Sale Price	\$254,975	\$281,087

Corner Site	\$281,087
Interior Site	\$254,975
	<u>\$26,112</u>

Adjustment for Corner Site: \$26,112

Comparable #4 is also located on a collector street with heavier traffic volumes. The following two sales from the market were analyzed to determine the adjustment necessary for a site on a collector street.

Address	6913 West Shore Drive	6017 Code Ave
Location	Corner Lot; Collector Street	Corner Lot; Neighborhood
Sale Price	\$181,000	\$256,700
Sale Date	05/04/2012	06/13/2011
Market Adjusted Sale Price	\$188,240	\$281,087

Neighborhood Street	\$281,087
Collector Street	\$188,240
	<u>\$92,847</u>

Adjustment for a Collector Street: \$92,847

Topography:

The subject property and three comparables are level sites. Comparable #1 is a sloped interior site with a walk out. The following two sales from the market were analyzed to estimate the adjustment necessary for topography.

Address	4425 Judson Lane	5205 48 th Street W.
Topography	Walkout Site	Level Site
Sale Price	\$300,000	\$235,000
Sale Date	04/15/2011	6/26/2012
Market Adjusted Sale Price	\$331,500	\$243,225

Walkout Site	\$331,500
Level Site	\$243,225
	<u>\$88,275</u>

Adjustment for Walkout Site \$88,275

APPLICATION OF ADJUSTMENTS

	Subject	Sale #1	Sale #2	Sale #3	Sale #4	% Difference
Property Address	6905 Hillcrest Lane	4425 Judson Lane	5205 48 th Street West	4516 Rutledge Avenue	6913 West Shore Drive	
PID	30-028-24-44-0053	30-028-24-34-0008	28-117-21-24-0034	28-117-21-23-0071	30-028-24-34-0077	
Lot Size	9,303 Sq. Ft.	12,533 Sq. Ft.	10,192 Sq. Ft.	7,341 Sq. Ft.	10,915 Sq. Ft.	
Front Feet	90 Feet	79 Feet	91 Feet	50 Feet	85 Feet	
Sale Date		04/15/2011	06/26/2012	03/27/2012	05/04/2012	
Sale Price		\$300,000	\$235,000	\$220,000	\$181,000	65.8%
Market Conditions (0.50% per month)		21 months @10.5% \$31,500	7 months @3.5% \$8,225	10 months @ 5.0% \$11,000	8 months @4.0% \$7,240	
Adjusted Sale Price Per Site		\$331,500	\$243,225	\$231,000	\$188,240	76.1%
Adjusted Sale Price Per Sq. Ft.		\$26.45	\$23.86	\$31.47	\$17.25	82.4%
Adjusted Sale Price Per FF		\$4,196	\$2,673	\$4,620	\$2,215	108.6%
Street Type	Neighborhood	Neighborhood \$0	Neighborhood \$0	Neighborhood \$0	Collector \$92,847	
Location	Interior Lot	Interior Lot \$0	Interior Lot \$0	Interior Lot \$0	Corner Lot -\$26,112	
Topography	Level Lot	Walkout Lot -\$88,275	Level Lot \$0	Level Lot \$0	Level Lot \$0.00	
Gross Adjustment		\$119,775 39.9%	\$8,225 3.5%	\$11,000 5.0%	\$126,199 69.7%	
Net Adjustments		-\$56,775 -18.9%	\$8,225 3.5%	\$11,000 5.0%	\$73,975 40.9%	
Final Adjusted Sale Price Per Site		\$243,225	\$243,225	\$231,000	\$254,975	

Selection and Justification of Indicated Site Value Estimate:

After adjusting for market conditions, the unit of comparison with the tightest range in values was sale price per site, at 76.1 percent. The range for sale price per square foot was 82.4 percent, and sale price per front foot was 108.6 percent. Therefore, sale price per site is selected as the best unit of comparison for the subject property. The four vacant site sales have a final adjusted sales price per site range of \$231,000 to \$254,975. The mean adjusted sale price is \$243,106 and the median adjusted sale price is \$243,225.

All four sales were comparable to the subject in size, neighborhood housing makeup, landscaping, tree cover and availability of services. All comparable sites needed an adjustment for market conditions. Although Comparable #1 and Comparable #4 are located in the subject neighborhood, they required the largest gross and net adjustments. Comparable #1 sold twenty-one months prior to the effective date of this appraisal and required the largest adjustment for market time. This comparable property also needed an adjustment for topography since the site allows for a walkout basement. Comparable #4 is located on a collector road with moderate to heavy traffic and was adjusted accordingly. Comparable #4 is located on a corner lot and was also adjusted for location. While all of the sales were similar to the subject property, the most emphasis was placed on Comparable #2 and Comparable #3. These properties only required an adjustment for market time. Comparable #2 is the most recent sale and closest in size to the subject property, so more weight is given to this sale. After analysis of comparable site sales, it has been estimated that the sites were purchased as building sites with little regard to actual square footage or front footage. After careful consideration of the site sales and their relationship to the subject property, it is my opinion that all of the sites are comparable to the subject, however, more weight was given to site #2.

Therefore, the estimated market value of the subject site as of January 2, 2013 is:

**TWO HUNDRED FORTY-THREE THOUSAND DOLLARS
(\$243,000)**

Improvement Valuation:

Once the value of the site as though vacant has been estimated, there are four steps remaining to arrive at a value utilizing the cost approach. First, the reproduction or replacement cost of the improvements is estimated as of the date of the appraisal. Second, determine an estimate of the accrued depreciation of the improvements.

For the third step subtract the total accrued depreciation of the improvements from the reproduction or replacement cost to determine the structure value. The fourth and final step is to add the site value to the total depreciated cost of the improvements to arrive at an indicated total value of the property.

Source of Cost Estimate:

The costs were derived from the Marshall and Swift Valuation Service. Due to the age of the property and the fact that some of the materials used, such as plaster walls, are not common for new construction, a replacement cost will be used. A general contractor was contacted to verify the final cost figures used in the comparative unit method. The general contractor stated that the figures for the estimated replacement cost new as of 01/02/2013 were accurate.

Estimate of Replacement Cost New – Square Foot Method:

Item		Cost
Average One Story Wood Frame	1685 sq. ft. x \$75.74 =	\$127,622
Energy Adjustment (Extreme)	1685 sq. ft. x \$1.97 =	\$3,319
Floors		\$8,997
Carpet and Pad	1119 sq. ft. x \$3.00 =	\$3,357
Wood Laminate	481 sq. ft. x \$9.58 =	\$4,608
Ceramic Tile	85 sq. ft. x \$12.14 =	<u>\$1,032</u>
Total		\$8,997
Heating and Cooling	1685 sq. ft. x \$1.93	\$3,252
Built-in Appliances (Lump Sum)		\$3,665
Dishwasher		\$710
Exhaust Fan (Bathroom)	\$155 x 2	\$310
Garbage Disposal		\$250
Built in Microwave and Fan		\$550
Range and Oven		<u>\$930</u>
Total		\$2,750
Fireplace (Lump Sum)	2 fireplaces	\$5,770
Basement		\$49,896
Extreme Climate Foundation	1434 sq. ft. x \$4.67 =	\$6,697
Unfinished	1434 sq. ft. x \$17.25 =	\$24,737
Finished	790 sq. ft. x \$23.37 =	<u>\$18,462</u>
Total		\$49,896
Garage	418 sq. ft. x \$24.58 =	\$10,274
Deck	204 sq. ft. x \$14.67 =	\$2,993
Subtotal Residence Cost		\$215,788
Estimated Replacement Cost New Residence	Multipliers CCM 1.01 x Local 1.16 = 1.17	\$252,472
Concrete Driveway	551 sq. ft. x \$3.82 =	\$2,105
Fencing-Chain Link	179 linear ft. x \$10.25=	\$1,835
Subtotal Site Improvements		\$3,940
Estimated Replacement Cost New Site Improvements	Multipliers CCM 1.01 x Local 1.16 = 1.17	\$4,609

DEPRECIATION ANALYSIS

Depreciation:

This is the third step used in the cost approach to estimate the market value of the subject. It requires the appraiser to estimate all forms of accrued depreciation. The term accrued depreciation is defined by The Appraisal Institute as "In appraising, a loss in property value from any cause; the difference between the cost of the improvement on the effective date of the appraisal and the market value of the improvements on the same date."²⁴ The causes of accrued depreciation fall into three categories:

- Physical deterioration, which is a defect caused by deferred maintenance or the wearing out of the improvements. This form of depreciation can be both curable and incurable.
- Functional obsolescence, which is a defect caused by a deficiency or a superadequacy in the structure, material, or design. This form of depreciation can be both curable and incurable.
- External or economic obsolescence, which is a negative influence or loss of value caused by forces outside of the site.

Curable Physical Depreciation:

This type of depreciation refers to items in need of repair as of the appraisal date. It is commonly referred to as deferred maintenance. An item is curable if the cost of curing it is less than or equal to the increase in property value. This justifies correcting the problem economically. The main causes of physical depreciation are aging, physical wear and tear, weather, and deterioration to the improvement.

The subject property suffers from one item of curable depreciation. The item as described in the improvement analysis is the living room ceiling, which has peeling plaster. According to Tim Boros, a local construction contractor, the cost to repair the plaster is \$325, including materials and labor. The reproduction cost new is \$0 because the plaster would be included in the entire cost of the original ceiling and we are only estimating the cost of replacing a small portion of the top plaster layer.

Curable Physical Items

<u>Item</u>	<u>Reproduction Cost New</u>	<u>Cost to Cure</u>
Repair damaged living room ceiling	\$0.00	\$325.00
Total Curable Physical Depreciation		\$325.00

Incurable Physical Depreciation:

These are items, which as of the appraisal date cannot be practically or economically corrected. It consists of all structural components which exhibit loss of value due to wear and tear that have not already been included as curable physical deterioration. Incurable physical deterioration occurs when the cost to cure the condition exceeds the anticipated increase in value thereby making correction economically unfeasible. It is measured against the remaining value after all curable physical deterioration has been subtracted from the reproduction cost of the structure.

The subject's incurable physical depreciation is estimated using the market extraction method and the percent annual depreciation derived from the sales on pages 23-24. The annual depreciation ranged from .0955 to 1.121 percent. The median was 1.019 and the average was 1.032 percent. An annual rate of 1 percent is supported by this data. The calculation is as follows:

$$\begin{aligned} & (34 \text{ years effective age} \times .01 \text{ annual rate}) = .34 \\ & \times \text{RCN (less site improvements)} \quad \$252,472 = \$85,840 \end{aligned}$$

²⁴ Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 56.

Functional Obsolescence:

This type of depreciation is a reduction in value of an improvement based upon characteristics built into the structure that prevent the property from being fully and efficiently used for its present functions. It can also be caused by changes that, over time, have made some aspect of a structure, material, or design obsolete by current standards.

Curable Functional Obsolescence:

This type of functional obsolescence is economically and physically feasible to cure. To be curable, the cost of replacing the outmoded or unacceptable aspect must be less than or equal to the anticipated increase in value. It is measured as the dollar amount of the cost to cure the deficiency that exceeds the amount if it were installed new during construction of the improvement. There are three subcategories curable functional obsolescence can fall into:

- 1) Deficiency requiring additions: measured by the additional cost to install the item now as opposed to having been installed originally.
- 2) Deficiency requiring substitution or modernization: measured by the cost to install the item minus any remaining value of the original component.
- 3) Superadequacy: measured by the current reproduction cost minus existing physical depreciation to the component plus the cost to install a normal component.

The subject property does not exhibit any curable functional obsolescence.

Incurable Functional Obsolescence:

For a functional deficiency or superadequacy to be incurable, the cost to cure it must be greater than the anticipated increase in value as of the appraisal date. In other words, the deficiency or superadequacy is not practical and is economically unfeasible to cure. If a deficiency is the cause of incurable functional obsolescence, the loss in value is measured by capitalizing the value of the actual income loss due to the deficiency. If the incurable functional obsolescence is caused by a superadequacy, the loss in value is measured by determining the reproduction cost of the superadequacy, minus any previously charged physical deterioration, plus the present value of any additional costs of ownership due to the superadequacy. These additional costs of ownership could include taxes, insurance, maintenance and utility charges.

The subject property does not exhibit any incurable functional obsolescence.

Economic Obsolescence:

This is a loss in value to the improvements as a result of negative influences outside the subject site. Because the negative influences are outside the subject site, this depreciation is also referred to as external obsolescence. Economic obsolescence can be caused by several factors. Examples would be changes in highest and best use, zoning, market conditions, and neighborhood decline.

Economic obsolescence affects the site and improvements and is rarely curable. It can be measured by two methods. One method is paired sales analysis, which is comparing sales of properties similar to the subject, which have the negative influence, to sales of similar properties that do not. This method is difficult if abundant comparable sales do not exist. The second method is to capitalize the income or estimated net rent loss due to the external influence. After the loss in value has been estimated, it must be allocated between the site and improvement values, because the land value that was determined in the site valuation portion already includes any value loss due to location. By calculating the ratio of site value or building value to total value will accomplish this.

There is no economic obsolescence exhibited by the subject property.

SUMMARY OF THE COST APPROACH

Replacement Cost New			\$252,472
<i>less</i> Accrued Depreciation			
Physical Deterioration			
Curable	\$ 325		
Incurable Lump Sum	<u>\$85,840</u>		
Total Physical Deterioration		\$86,165	
Functional Obsolescence			
Curable	\$ 0		
Incurable	<u>\$ 0</u>		
Total Functional Obsolescence		\$ 0	
Total Economic Obsolescence		\$ 0	
<i>less</i> Total Accrued Depreciation			\$ 86,165
Total Depreciated Value of Improvements			\$166,307
<i>plus</i> Depreciated Cost of Site Improvements (driveway and fence)			\$ 3,042
<i>plus</i> Total Site Value			\$243,000
Estimated Value by the Cost Approach			\$412,349
		Rounded to nearest \$100	\$412,300

The estimated market value of the subject property, utilizing the cost approach, as of January 2, 2013 is:

FOUR HUNDRED TWELVE THOUSAND THREE HUNDRED DOLLARS

(\$412,300)

INCOME APPROACH

The income approach is based on the principle of anticipation. "The perception that value is created by the expectation of benefits to be derived in the future²⁵."

"To obtain a value indication for the subject property using the income capitalization approach with a *GRM*, an appraiser

1. Derives a GRM from market data. To do this, the appraiser finds recent sales of similar properties that were rented at the time of or immediately after the sale, divides the sale price of each property by its monthly rental income expectation, and reconciles the results.
2. Estimates the monthly market rent the subject property should command. This estimate can be based on
 - The actual rents of competitive properties that have been adjusted for the advantageous or disadvantageous features of the subject.
 - The current rental rates obtained by the owner of the subject property. These could be less than or more than the market rent, but so could the comparable rentals mentioned above. The actual rents for the subject are often a good indication of the market rent.
 - The current asking rental rates for competing properties. These comparable "for rent" properties will not give conclusive evidence of what the market will pay, but they will usually indicate a ceiling for the subject rents after adjustment.
3. Multiplies the estimated monthly market rent for the subject by the estimated GRM to obtain a value indication for the subject property²⁶."

²⁵ Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 9.

²⁶ Appraisal Institute, *Appraising Residential Properties*, 358.

Comparable Rentals Analysis

	Rental #1	Rental #2	Rental #3	% Difference	Subject
Monthly rent	\$1,650	\$2,250	\$2,350		
Size in square feet	1,129	1,525	1,625		1,685
Number of rooms	5	7	7		7
Number of bedrooms	2	3	4		3
Rent per square foot	\$1.46	\$1.48	\$1.45	2.1%	\$1.46
Rent per room	\$330.00	\$321.43	\$335.72	4.5%	
Rent per bedroom	\$825.00	\$750.00	\$587.50	40.4%	
Indicated best unit of comparison	Square Foot	Square Foot	Square Foot		

After examining all units of comparison, monthly rent per square foot appears to be the most consistent. The mean and median are \$1.46 and \$1.46 respectively. A value of \$1.46 per square foot should be applied to the subject to yield an indicated monthly rent for the subject property. The comparable rental analysis indicates a monthly rent of \$2,460 for the subject. The comparable rental map can be found in the addendum on page A9.

Size is an important factor affecting value and the above analysis indicates the most stable unit of comparison is monthly rent per square foot.

GROSS MONTHLY RENT MULTIPLIER ANALYSIS

The establishment of the gross monthly rent multiplier (GMRM) is the second step in the estimation of subject's market value by using the income approach. The GMRM is the result of dividing the selling price of the property by the monthly gross rent. The rental sales selected for this appraisal are considered to be arms-length transactions, unfurnished, and the monthly rents do not include utilities. Three sales were selected for determining the gross rent multiplier. All the comparable sales are within five miles of the subject and are similar in style, quality and overall condition and were rented at the time of the sale. A summary of the three sales showing the sales prices, monthly rents and calculated GMRM are listed below.

Rental Sale	Location	Sale Price	Rent	Monthly GMRM
#1	6821 West Shore Drive	\$375,390	\$2,500	150
#2	5221 Richwood Drive	\$383,150	\$2,400	160
#3	7313 Cornelia Drive	\$384,000	\$2,650	145

The three rental sales indicate a range from 145 to 160 for the gross rent multiplier. The mean and median are 152 and 150 respectively. All comparable rental sales were given equal consideration, due to each having size and amenities that are similar to the subject. After analyzing all the comparable rental sales, the mean and median GMRM, it is the opinion of this appraiser that the gross rent multiplier most applicable for the subject property to estimate market value using the income approach is 152. The comparable rental sales map can be found in the addendum on page A9.

Reconciliation of Value by the Income Approach:

Two analyses were completed. The first was to estimate market rent of the subject property. Three comparable rental properties were analyzed to come up with the market rent for the subject property as of January 2, 2013. The indicated market rent of the subject was \$2,460 per month for an unfurnished property. The second was the development of a gross monthly rent multiplier. The gross monthly rent multiplier was estimated by using three comparable rental sales. The gross monthly rent multiplier is 152.

The final step of the Income Approach is to multiply the gross monthly rent multiplier by the estimated market rent for the subject property to arrive at the estimated market value.

Gross Monthly Rent	x	Gross Monthly Rent Multiplier	= Estimated Value
\$2,460	x	152	= \$373,920
Rounded to nearest \$100			\$373,900

The estimated market value of the subject property by application of the income approach as of January 2, 2013 is:

THREE HUNDRED SEVENTY-THREE THOUSAND AND NINE HUNDRED DOLLARS

(\$373,900)

SALES COMPARISON APPROACH

The sales comparison approach is based on the principle of substitution. "When several similar or commensurate commodities, goods, or services are available, the one with the lowest price will attract the greatest demand and widest distribution²⁷."

"The sales comparison approach is the most direct and reliable valuation approach in many appraisal situations. The basic steps involved in the sales comparison approach are as follows:

- The appraiser finds recent sales, listings, and/or pending offers (if available) for properties that are comparable to the subject property.
- The appraiser verifies that the data obtained are accurate.
- The appraiser selects relevant units of comparison to analyze each sale.
- The appraiser compares sales of comparable properties to the subject property in terms of various elements of comparison and adjusts the sale prices of the comparable properties to reflect how they differ from the subject property.
- The appraiser reconciles the various value indications derived into a single value indication or a range of values²⁸."

²⁷ Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 190.

²⁸ Appraisal Institute, *Appraising Residential Properties*, 311.

Comparable Sale 1



Date of Photo: March 1, 2013

ADDRESS:	7117 Cornelia Drive		
LEGAL DESCRIPTION	Lot 15 Block 3 Stow's Delaney Addition		
DATE OF SALE:	7/23/2012	YEAR BUILT:	1962
SELLING PRICE:	\$399,000	EFFECTIVE AGE:	34 yrs
FINANCING:	Conventional Mortgage	CONDITION:	Average
RECORDING DATE:	08/21/2012	SITE:	Average/Interior Lot
TYPE OF DEED:	Warranty Deed – Document Number 109397-ECRV	GROSS LIVING AREA:	1,509 Square Feet
BUYER:	Eric and Ashley Eastman	BASEMENT:	1,235 Square Feet finished
SELLER:	Colleen Hitchcock	GARAGE:	19'x21' – double attached
PARCEL IDENTIFICATION:	31-028-24-12-0040	FINANCING:	Cash
SALES VERIFICATION:	Sale verified with seller	ZONING:	R-1
FUNCTIONAL OBSOLESCENCE:	None	ECONOMIC OBSOLESCENCE:	None
COMMENTS	The sale price was \$399,000 with the seller paying \$10,000 in points. The cash equivalent sale price is \$389,000. This property is located 4 Blocks south of the subject. The house was resided and the kitchen updated in 2008. The roof was replaced in 1998. The home has been well maintained. 6 Rooms; 2BR; 1.75BA above grade; 2BR; 1BA below grade.		

Comparable Sale 2



Date of Photo: March 1, 2013

ADDRESS:	7100 Gloucester Avenue		
LEGAL DESCRIPTION	Lot 10 Block 3 Stow's Delaney Addition		
DATE OF SALE:	07/23/2012	YEAR BUILT:	1960
SELLING PRICE:	\$357,500	EFFECTIVE AGE:	39 yrs
FINANCING:	Conventional Mortgage	CONDITION:	Average
RECORDING DATE:	08/21/2012	SITE:	Average/Corner Lot
TYPE OF DEED:	Warranty Deed – Document Number 106594-ECRV	GROSS LIVING AREA:	1,476 Square Feet
BUYER:	Sarah & Aaron Wenthold	BASEMENT:	798 Square Feet finished
SELLER:	Robert Ruenitz & Kowfong Chai	GARAGE:	19'x22' – double attached
PARCEL IDENTIFICATION:	31-028-24-12-0035	FINANCING:	Cash
SALES VERIFICATION:	Sale verified with seller.	ZONING:	R-1
FUNCTIONAL OBSOLESCENCE:	None	ECONOMIC OBSOLESCENCE:	None
COMMENTS	This property is located 3 blocks south of the subject. The siding and some windows were replaced in 2009. The furnace was replaced in 2004 and the roof was replaced in 1998. The home has been well maintained. 7 Rooms; 3 BR; 1.5BA above grade; 1BR; .75BA below grade		

Comparable Sale 3



Date of Photo: March 1, 2013

ADDRESS:	4916 Trillium Lane		
LEGAL DESCRIPTION	Lot 19 Block 3 Lake Edina Addition		
DATE OF SALE:	10/11/2012	YEAR BUILT:	1960
SELLING PRICE:	\$426,700	EFFECTIVE AGE:	24 yrs
FINANCING:	Conventional Mortgage	CONDITION:	Average
RECORDING DATE:	10/30/2012	SITE:	Average/Interior Lot
TYPE OF DEED:	Warranty Deed – Document Number 117054-ECRV	GROSS LIVING AREA:	1,796 Square Feet
BUYER:	Zachary & Shauna Zwart	BASEMENT:	995 Square Feet finished
SELLER:	Curtis & Annette Cullison	GARAGE:	22'x22' – double attached
PARCEL IDENTIFICATION:	31-028-24-22-0069	FINANCING:	Cash
SALES VERIFICATION:	Sale verified with seller.	ZONING:	R-1
FUNCTIONAL OBSOLESCENCE:	None	ECONOMIC OBSOLESCENCE:	None
COMMENTS	This property is located southwest of the subject. An addition was added in 1997 and the kitchen was updated in 2011. The roof and air conditioner have been replaced in the last 10 years. The home has been well maintained. 7 Rooms; 3 BR; 1.75BA above grade; 1BR; 1BA below grade		

SUMMARY OF COMPARABLE SALES

Units of Comparison	Subject	Comp #1	Comp #2	Comp #3
Sale Price	N/A	\$399,000	\$357,500	\$426,700
Sale Date	N/A	07/23/2012	07/23/2012	10/11/2012
Location	6905 Hillcrest Lane	7117 Cornelia Drive	7100 Gloucester Avenue	4916 Trillium Lane
Architectural Style	One Story	One Story	One Story	One Story
Age/Condition	1955 /Avg	1962/Avg	1960/Avg	1960/Avg
Effective Age	34 Years	35 Years	40 Years	25Years
Gross Living Area	1,685sq ft	1,509 sq ft	1,476 sq ft	1,796sq ft
Bedrooms/ Bathrooms	3/2.25	4/2.75	4/2.25	4/2.75
Basement Finish	790 sq ft	1,235 sq ft	798 sq ft	995 sq ft
Deck/Patio	Yes	Yes	Yes	Yes
Garage	2 Car	2 Car	2 Car	2 Car
Central Air	Yes	Yes	Yes	Yes
Walk-Out	None	None	None	None
Fireplace	2	2	2	2
Sale Price/Bedroom	N/A	\$97,250	\$89,375	\$106,675
Sale Price/Sq. Ft.	N/A	\$234.01	\$242.21	\$237.58

From the above comparable sales chart it is found that the sales are similar to the subject property. However, since the sales are not identical to the subject there will be some adjustments needed to equalize each comparable with the subject property. Adjustments are made for date of sale, gross building area, basement finish, bedrooms and bathrooms. These adjustments are addressed on the following pages. The comparable sales map can be found in the addendum on page A8.

Financing:

The subject and all comparable sales closed with typical financing.

Market Conditions:

The market conditions adjustment is used to update sales, which have taken place more than one month prior to the date of the appraisal. Prior to the appraisal date, there have been five homes similar to the subject property that sold twice over a fourteen month period. The following sales were used:

<u>Address</u>	<u>Sale #1</u>	<u>Date</u>	<u>Sale #2</u>	<u>Date</u>	<u>Lapse</u>	<u>% Inc Mo</u>	<u>% Inc Yr</u>
4239 Lynn Ave	\$700,000	08/11	\$750,000	06/12	10	0.7143%	8.5714%
5901 Concord Ave.	\$305,000	05/11	\$325,000	07/12	14	0.4684%	5.6206%
418 Tyler Ave	\$255,000	06/11	\$269,900	08/12	14	0.4174%	5.0084%
7128 Gloucester Ave	\$343,900	07/11	\$375,000	09/12	14	0.6460%	7.7514%
4412 Fondell Dr	\$421,000	05/12	\$428,028	12/12	7	0.2385%	2.8618%

These repeat sales provide an indication of inflation during the period between May 2011 and December 2012. These five sales had no significant changes due to remodeling, redecorating or extensive repair of deferred maintenance.

The mean and median increases per year over the past fourteen months are 5.96 percent and 5.62 percent respectively. The market conditions adjustment is calculated using the mean of 5.96 percent per year. Each of the comparable sales sold prior to the date of the appraisal, January 2, 2013 and as such, each will receive an upward time adjustment of .50 percent per month.

Location:

The subject property and each of the three comparable sales are located in the subject neighborhood. The comparables are located within a one-mile radius of the subject and front on similar quiet residential streets. No economic obsolescence is present in any of the comparable sales thus no location adjustment was deemed necessary.

Basement Finish:

All comparables are one story homes. The subject property and comparables have a full basement therefore no adjustment is necessary. The finished basement areas and above grade living areas of the comparables are similar in quality to the subject; therefore no adjustment for quality is necessary. Both comparable #1 and comparable # 3 have more finished basement square footage than the subject. Comparable Sale # 2 has similar finished basement square footage and no adjustment was made. Comparable sale #3 and Market Sale #1 were used in determining the amount of adjustment. Both sales have 1,796 square feet of above grade area. These sales also have the same bedroom and bathroom count and require only a market conditions adjustment of .50 percent per month. The difference can be attributed to the basement finish contribution to the sale price.

	Market Sale #1	Comparable Sale #3
Location	4725 Upper Terrace	4916 Trillium Lane
Sale Price	\$423,800	\$426,700
Sale Date	03/29/2012	10/11/2012
Market Adjusted Sale Price	\$445,000	\$433,100
Basement Square Footage	1,437	995
	Market Sale #1 with 1,437 Sq. Ft.	\$445,000
	<u>Comparable Sale #3 with 995 Sq. Ft.</u>	<u>\$433,100</u>
	442 Sq. Ft.	\$ 11,900

Size Adjustment per Square Foot (\$11,900/442Sq. Ft.): \$26.92

Square Foot Size Adjustment (rounded): \$27

Size:

The subject and comparable properties are somewhat similar in size. Comparable # 1 is the most similar to the subject property in the amount of square footage on the main level. Comparable # 2 is smaller and Comparable # 3 is larger on the main level than the subject property, so an adjustment to the sale price of these properties will be made to account for their size.

Comparable Sale #1 and Market Sale #2 were analyzed in the following matched pair analysis to estimate an adjustment figure per square foot of main level area. Both properties are similar in all respects except for basement finish and main floor area. After these sales are adjusted for market conditions and basement finish, the difference can be attributed to the size of the home. The basement finish is adjusted by taking the subject finished basement size minus the comparable basement finish size and multiplying that result by \$27.

	Comparable Sale #1	Market Sale #2
Location	7117 Cornelia Drive	6813 Cornelia Drive
Sale Price	\$389,000	\$406,400
Sale Date	07/23/2012	11/15/2012
Market Adjusted Sale Price	\$400,670	\$410,464
Basement Finish	\$(12,015)	\$ (6,709)
Sale Price Adjusted for Market And Basement Finish	\$388,655	\$403,755
GLA Square Footage	1,509	1,785

Market Sale #2 with 1,785 Sq. Ft.	\$403,755
<u>Comparable Sale #1 with 1,509 Sq. Ft.</u>	<u>\$388,655</u>
276 Sq. Ft.	\$ 15,100

Size Adjustment per Square Foot (\$15,100/276Sq. Ft.): \$54.71

Square Foot Size Adjustment (rounded): \$55

Age and Condition:

All comparable sales utilized were in average condition with typical deterioration for the ages of the homes. No adjustment was necessary.

Bathrooms:

The subject property has one full bath, one three-quarter bath and one half bath. Comparable #2 also has one full bath, one three-quarter bath and one half bath. Comparable #1 and Comparable #3 have two full baths and one three-quarter bath. Two market sales were analyzed in the following matched pair analysis. Both sales are similar in style and age to the subject property. They are located on similar lots and are of average quality. Both homes have four bedrooms, a two car garage, deck and two fireplaces and similar finished basement area. Market Sale #2 has an above grade area of 1,354 square feet and two and a half baths. Market Sale #3 has an above grade area of 1,534 square feet and two baths. The homes are adjusted for market conditions and the size is adjusted by taking the subject size minus the market sale size and multiplying that result by \$55. The remaining difference in price is attributable to the additional plumbing fixtures.

	Market Sale #2	Market Sale #3
Location	7001 Bristol Blvd.	6712 Wooddale
Sale Price	\$263,000	\$280,500
Sale Date	04/18/2012	06/04/2012
Market Adjusted Sale Price	\$274,835	\$290,317
Size	\$ 18,205	\$ 8,305
Sale Price Adjusted for Market And Size	\$293,040	\$298,622

Market Sale #3 with 2.5 baths	\$298,622
<u>Market Sale #2 with 2 baths</u>	<u>\$293,040</u>
	\$ 5,582

Adjustment for a half bath (rounded): \$5,600

Bedrooms:

All the Comparables have a total of four bedrooms. The subject property has three bedrooms. Market Sale #4 and Comparable #2 were analyzed in the following matched pair analysis. Both homes are similar in all respects except for size and number of bedrooms. Market Sale #4 has three bedrooms. The homes are adjusted for market conditions and size. The remaining difference in price is attributable to the extra bedroom.

	Comparable Sale #2	Market Sale #4
Location	7100 Gloucester Avenue	6844 Point Drive
Sale Price	\$357,500	\$384,000
Sale Date	07/23/2012	12/14/2012
Market Adjusted Sale Price	\$368,225	\$384,000
Size	\$ 11,495	\$ (11,551)
Sale Price Adjusted for Market And Size	\$379,720	\$372,449
	Comparable Sale #2 with 4 bedrooms	\$379,720
	<u>Market Sale #4 with 3 bedrooms</u>	<u>\$372,449</u>
		\$ 7,271

Adjustment for a bedroom (rounded): \$7,300

Fireplace:

The subject and all comparables all have two fireplaces. No adjustments are necessary.

Decks:

The subject and all comparable sales have similarly styled decks. No adjustment is necessary.

Central Air Conditioning:

The subject and the comparable sales all have air conditioning. No adjustment is necessary.

Fence:

The subject and the comparable sales all have similar quality fencing as of the date of sale and date of the appraisal. No adjustment is necessary.

SALES COMPARISON ADJUSTMENT GRID

	Subject	Comparable #1	Comparable #2	Comparable #3
Address	6905 Hillcrest Lane	7117 Cornelia Drive	7100 Gloucester Avenue	4916 Trillium Lane
Sale Date		07/23/2012	07/23/2012	10/11/2012
Sale Price		\$399,000	\$357,500	\$426,700
Financing Adjustment		-\$10,000	\$0	\$0
Sale Price Adjusted for Financing		\$389,000	\$357,500	\$426,700
Market Conditions Adjustment		6 Months	6 Months	3 Months
.50% Per Month		+\$11,670	+\$10,725	+\$6,401
Adjusted Sale Price		\$400,670	\$368,225	\$433,101
Gross Living Area	1,685 sf.	1,509 sf.	1,476 sf.	1,796 sf.
Adjusted Sale Price / Sq. Ft.		\$266	\$249	\$241
Number of Rooms	7	6	7	7
Adjusted Sale Price Per Room		\$66,778	\$52,604	\$61,872
Number of Bedrooms	3	4	4	4
Adjusted Sale Price Per Bedroom		\$100,168	\$92,056	\$108,275
GLA Adjustment: \$55/Sq. Ft.	1,685 Sq. Ft.	1,509 Sq. Ft. +\$9,680	1,476 Sq. Ft. +11,495	1,796 Sq. Ft. -\$6,105
Garage Stall Adjustment	2 Stall	\$0	\$0	\$0
Walkout	None	\$0	\$0	\$0
Bath Adjustment	2.25	-\$5,600	\$0	-\$5,600
Bedroom Adjustment	3	-\$7,300	-\$7,300	-\$7,300
Fireplace	2	\$0	\$0	\$0
Basement Finish Adjustment \$27.00/Sq. Ft.	790 Sq. Ft.	1,235 Sq. Ft. -\$12,015	799 Sq. Ft. \$0	995 Sq. Ft. -\$5,535
Gross Adjustments		\$56,265	\$29,520	\$30,941
Net Adjustments		-\$13,565	+\$14,920	-\$18,139
Number of Adjustments		6	3	5
Adjusted Sale Price Rounded to Nearest \$100		\$385,400	\$372,400	\$408,600
Gross Living Area	1,685			
Final Adjusted Sale Price Per Sq. Ft. GLA		\$229	\$221	\$242

RECONCILIATION OF VALUE – SALES COMPARISON APPROACH

In reviewing the adjustment grid for the comparable sales all three sales needed an adjustment for market conditions, building area and number of bedrooms. Comparables #1 and # 3 needed an adjustment for basement finish and a full bath versus a half bath. Comparable #1 was adjusted for financing because the seller paid \$10,000 in points.

An analysis of the units of comparison is as follows. After adjustments were made for market conditions, the unit of comparison with the tightest range in values was 10.4 percent for sale price per square foot. The range in sale price per room was 26.9 percent and was 17.6 percent for sale price per bedroom. Therefore, sale price per square foot is selected as the best unit of comparison for the subject property. The unadjusted sale prices of the three comparables ranged from \$357,500 to \$426,700, a difference of 19.4 percent. The adjusted sale prices per dwelling of the three comparable sales range from \$372,400 to \$408,600, a 9.7 percent difference. The mean adjusted sale price is \$388,833 and the median adjusted sale price is \$385,500.

Comparable # 1 had a total of six adjustments with a gross dollar amount of \$56,265, which is 14.1 percent of its unadjusted sales price. Comparable # 2 had a total of three adjustments with a gross dollar amount of \$29,520, which is 8.3 percent of its adjusted sale price. Comparable # 3 had five adjustments with a gross dollar amount of \$30,941, which is 7.3 percent of its adjusted sale price. Since Comparable #1 had the lowest net adjustment, it is the best indicator of market value for the subject.

After a thorough analysis of the three comparable sales in relationship to the subject property, the final step of the Sales Comparison Approach is to multiply the square footage of the subject by the indicated sale price per square foot of the comparable properties. Since Comparable #1 had the lowest net adjustment, it is the best indicator of market value for the subject.

Gross Living Area of Subject	1,685
Adjusted Sales Price per Square Foot x \$	<u>229</u>
Estimated Market Value	= \$385,865

Estimated Market Value (rounded): \$385,900

The estimated market value of the subject property by application of the sales comparison approach as of January 2, 2013 is:

THREE-HUNDRED AND EIGHTY-FIVE THOUSAND NINE HUNDRED DOLLARS

(\$385,900)

RECONCILIATION AND FINAL ESTIMATE OF VALUE

The objective of this appraisal is to estimate the market value of the fee simple interest of the subject property as of January 2, 2013. The subject is a single-family residence located at 6905 Hillcrest Lane, Edina, Minnesota.

In order to estimate the market value of the subject property, all factors that affect the value must be identified, considered and analyzed. This information was checked for accuracy and reliability. In the examination of the subject site and improvements, it has been determined that the site has been developed to its optimal or highest and best use. The highest and best use of the subject is single-family residential. The site was examined as if vacant and improved.

The three traditional approaches to value were used to value the subject property and the following values were estimated for each:

Cost Approach	\$412,300
Income Approach	\$373,900
Sales Comparison Approach	\$385,900

Cost Approach:

The cost approach relies on the principle of substitution as the basis for estimating market value. Valuing the subject as vacant is the first step in the cost approach. This was done by analyzing four vacant site sales in the area of the subject property and making necessary adjustments. The next step was to estimate the value of the improvements. This required estimating the total replacement cost new of all improvements and estimating the loss in value contributed by all types of accrued depreciation. Because of the difficulties in estimating depreciation, this method is considered to be less reliable. Therefore, less weight will be given to the cost approach.

Income Approach:

The income approach is based on the principle of anticipation. Properties typically valued by this approach include commercial properties such as retail, warehouses and offices. The first step in the income approach is to estimate the economic rent for the subject property. Three comparable rental properties were analyzed. Each rental property was analyzed for any differences and necessary adjustments were made. The next step was to calculate the gross rent multiplier. To calculate the gross rent multiplier, the current selling price of rental property was divided by the estimated monthly gross rent. An estimate of value can then be calculated by multiplying the monthly gross rent by the gross rent multiplier. Because of the small number of rental sales and rental single-family residential properties, the income approach to value was given less weight than the other two approaches to value.

Sales Comparison Approach:

The sales comparable approach is based on the principle of substitution in which an informed buyer will not pay more for a property than the cost of acquiring a substitute property. In the sales comparison approach, the estimate of the subject property's value is determined through a comparison of similar properties, which have sold. Three comparable sales were selected, analyzed and adjustments were made for the differences between the comparables and the subject. Adjustments were made to the comparables to make them equal to the subject property. This approach is the most effective when there are numerous sales of like properties. Because sales of homes similar to the subject property were available, the market comparison approach has been given the most weight in arriving at the estimate of value.

All three approaches were considered and developed in arriving at the final estimate of value. Strengths and weaknesses of each approach to value were considered before determining the final estimate of value. The determination of the final value is an estimate based on the best approach that fits the subject property. The cost approach and the income approach were given the least consideration. The sales comparison approach was believed to be the best indicator of value in the appraisal of the subject property.

It is in the opinion of this appraiser, based on the facts stated above, that the market value of the subject property as of January 2, 2013 is:

THREE HUNDRED AND EIGHTY-FIVE THOUSAND NINE HUNDRED DOLLARS

(\$385,900)

Appendix 1

Writing Guide

Proper writing style, grammar, punctuation, and form are essential to impressing the reader that a report is professionally done. This appendix does not allow for in-depth coverage of these topics but discusses a few basic principles and pinpoints common violations of proper style and form. The goal is to help you avoid common errors that detract from the report as a whole.

Sources of Help

Many tools are available to help you produce a flawless report. Books and Internet resources are listed at the end of this appendix. Sophisticated word-processing programs, such as Microsoft Word or WordPerfect, help identify errors in spelling and grammar and can be set to hyphenate words properly at the end of lines. Even if you have excellent writing skills, use the word-processing program's tools for checking grammar and spelling to help you spot typographical and careless errors. Dictionaries not only help you spell and hyphenate words correctly, but can alert you to the connotations of synonymous words and point to the right one for the context.

Basic Principles

Consistency

Choose a style and stick to it. Before you start writing, make decisions about the style of headings, footnotes or endnotes, punctuation, capitalization, form of technical terms, and treatment of numbers. Create a style sheet to record your decisions so you can refer to it as you write. A written style sheet will save you time and help keep the report consistent during the weeks or months of writing.

Headings

The purpose of headings is to make the structure of your report clearer to the reader. The various levels of headings indicate the level of importance or generalization you assign to each topic and display for the reader your idea of the relationships among topics. The headings should follow your outline of the report. The structured format has made some of those decisions for you, but you may want to modify the scheme presented to fit your own needs.

Set up a style for three or four levels of headings (or heads, as they are called by editors). A major, or primary, section head is called an A-head; a secondary head is called a B-head; the next level, a C-head; and so on. Decide on the distinguishing features of each level of head: type style (roman, bold, or italics, underlined or not), size (the same size or different sizes), different font or the same as the type in the body of the report, position (centered, indented, or run into the text), capitalization (all letters capitalized, first letter of each word capitalized, or only the first word capitalized), and spacing after the head.

Word-processing programs allow you to choose a font for some of your heads that distinguishes them from the body of the report. For example, using Helvetica (a sans-serif font) for the A-heads and B-heads makes a nice contrast with Times Roman (a serif font). However, more than two typefaces in your report will make it look amateurish. The next page shows two sample heading schemes.

Appendix 1 continued

Samples of Heading Schemes

DATA ANALYSIS (A-head)

Status of Data (B-head)

Data Collection (C-head)

Sales data. (D-head) For the sales comparison approach....

DATA ANALYSIS (A-head)

Status of Data (B-head)

Data Collection (C-head)

Sales Data. (D-head) For the sales comparison approach....

Footnotes and Endnotes

Decide whether your sources will be recognized in footnotes or endnotes. Use a style manual (see list at the end of this appendix) to choose a particular style for your references. Add to your style sheet examples of the style you choose—one for periodical articles, one for books, one for unpublished material, and so on. The style you choose does not matter, as long as you apply it consistently. Pay attention to how your examples use capitalization, punctuation, italics, and so on. Footnotes and endnotes are discussed in more detail in appendix 2.

Punctuation

The purpose of punctuation is to make a writer's meaning clear. Most punctuation follows strict rules, but some punctuation is optional. You can choose, for example, whether to place a comma before *and* in a series:

Appraisal theory, data analysis, and research....

Appraisal theory, data analysis and research.....

Both are correct, but once you choose a style, apply it consistently—always place the comma before the *and* or always leave it out.

Some specific rules of punctuation are covered later in this appendix.

Capitalization

Rules about capitalization can be boiled down to the following: Capitalize infrequently, and do not use capitalization as a device for emphasis. Observe the following rules for capitalizing in ordinary text (heads and table heads have their own rules).

Appendix 1 continued

1. Capitalize proper names of cities, states, countries, streets, bodies of water, organizations, and institutions. Do not capitalize city, state, street, association, and like words unless they are part of the proper name.

Massachusetts; the state of Massachusetts*; the state
Omaha; the city of Omaha*; the city
Lincoln Park; the park
4146 Grand Avenue; the avenue
Lake Huron; the lake
International Association of Assessing Officers; the association
Bureau of Census; the bureau
Oklahoma State University; the university

*When formal reference to the government entity is intended, it may be correct to use City of Omaha and State of Massachusetts.

2. Do not capitalize titles of individuals except when used in direct address:

Mr. Jones is Grant County assessor.
Mr. Jones is the assessor of Grant County.
I believe that President Jones has arrived.
Mr. Jones is the president of the university.

3. Do not capitalize technical terms such as cost approach, gross rent multiplier, or correlation. When an acronym is used for a term (geographic information system—GIS), there is no need to capitalize the written-out term.
4. Do not capitalize references to pages, chapters, tables, addenda, and so forth.

See page 6
This is explained in section 3
See table 1 in the addenda
Compare sale 6 with sale 5

Form of Technical Terms

Many acceptable variants of technical terms are used—*sales comparison approach* v. *comparative sales approach* v. *market approach*. Decide which variant you will use and then use it consistently. For example, if the term *incurable functional obsolescence* is used in one part of the depreciation section, the terms *functional incurable obsolescence* or *incurable obsolescence, functional*, should not be used in another part of the section. Use the glossary or index in your textbooks to identify the variants preferred by the IAAO. Similarly, if the word *data* is plural (the data are useful) in the beginning of a report, it should not become singular later (the data is useful). (Note: *Data* as a plural is correct; the singular is *datum*. Use of *data* in the singular is recognized by many authorities, however.)

Define technical terms when they first appear. If you use an abbreviation for a technical term, introduce it in parentheses after the first use of the term: *computer-assisted mass appraisal (CAMA)* system. Avoid sprinkling your report with abbreviations and stick to abbreviations that are well known. Abbreviations acceptable in informal situations should be avoided in a formal report: *capitalization rate*, not *cap rate*; *effective gross income*, not *effective gross*.

Appendix 1 continued

Treatment of Numbers

Decide when you will use numerals and when you will use words to represent numbers. According to some manuals, whole numbers from one through ninety-nine are always written out; according to others, only whole numbers from one to nine are written out. In general, the following rules apply.

1. In nonscientific text matter, whole numbers of less than one hundred should be spelled out, and numbers of one hundred or more should be expressed in figures:

The appraiser used ten comparables.
There were 325 sales in the subject neighborhood last year.

Note: An exception to this rule is made for references to parts of a book or report:

The comparables are listed in chapter 10, page 8.

2. Numbers applicable to the same category should be treated the same way in a paragraph; numerals should not be used for some numbers and words for others. If the largest number contains three or more digits, use numerals for all. If one number is a decimal, use numerals for whole numbers of other items in the same category:

There were 25 properties in this neighborhood and 116 properties in the other.

In the past five years, a 101-story building and two buildings of 20 and 30 stories were built.

Comparable A had 2.5 bathrooms, comparable B had 2, and the subject property had 3.

3. Notwithstanding any other rules, at the beginning of a sentence all numbers should be written out:

Three hundred sales and 105 comparables were found.

4. In sections of the narrative appraisal report dealing with valuation discussions, numbers may be expressed as figures, in accordance with rules for scientific usage:

The subject property has 4 rooms per unit. Sale 4 has 4.5 and appears to be the most comparable. Using the price for sale 4 as an estimate, we have
 $45 \text{ apartments} \times \$8,067 \text{ per apartment} = \$363,015.$

5. Use the word *percent* within the text of a report instead of the sign %:

The adjustment was 10 percent.

Because mathematical formulas and equations are used extensively in demonstration appraisal reports, it is important to follow consistently established conventions in their representation. There are different conventions for representing mathematical relationships ($2 \div 1$ or $2/1$). Choose one style, add the choice to your style sheet, and use it consistently. Also pay careful attention to consistent internal logic within an equation or formula. Following are some points to bear in mind:

Appendix 1 continued

1. Decimal fractions should always be preceded by a zero if the quantity expressed can equal or exceed 1.00. If the quantity cannot, in practice, equal or exceed 1.00, the zero is omitted:
The capitalization rate is .10.
The probability is less than .05.
The level of appraisal is 0.90.
2. Avoid using percentages within equations. Decimals are preferred. In either case, do not use decimals in equations sometimes and percentages at other times:
$$\$2,500 \times .25 + .10 \times \$300 = \$655,$$

not $\$2,500 \times .25 + 10\% \times \$300 = \$655.$
3. Do not express statements or headings that occur outside a formula or equation as if they were part of one. For example, the following heading is poor form, unless it is part of a formula:
Vacancy and credit loss for the subject property = 4 percent.
The proper form for this heading is
Vacancy and credit loss for the subject property: 4 percent.
The equals sign denotes that what follows is a result of a calculation, when in fact what is being expressed is that the vacancy and credit loss is 4 percent.
4. Use either symbols expressing mathematical relationships or use words represented by the symbols, but not both in the same expression. It is poor form to write:
 $\$280,500 \text{ divided by } 0.28 = \$1,001,786,$
or
 $\$280,500/0.28 \text{ equals } \$1,001,786.$
5. Punctuate equations at the end as though they were sentences or parts of sentences.
6. Within the same category, round decimals to the same number of places.
7. In tables and calculations, be sure numbers are properly aligned. Using the tab key rather than the space bar is one way to achieve proper alignment.

Clarity and Coherence

Clarity and coherence are inseparable in good writing. Clear writing expresses meaning precisely and unambiguously. Coherence in its literal sense means sticking together; in technical writing, it means that parts large and small are logically connected and congruous with one another. Consistency is an important tool in clear, coherent writing. Everything from the choice of words to sentence structure to paragraph structure to the grand outline of the whole contributes to both clarity and coherence. This section focuses on writing clear, coherent sentences and clear, coherent paragraphs.

Appendix 1 continued

Clear Sentences

Wordiness, lack of parallelism, double meanings, and overly complex sentences get in the way of clear expression of ideas.

Omit needless words.

- Avoid expressions containing “the fact that.” *Due to the fact that* can be replaced by *Because*.

- Use apposition instead of *which is* or *who are*: Instead of *The building, which is the oldest in the neighborhood*, write, *The building, the oldest in the neighborhood, ...*

- Avoid constructions requiring *that*.

Property that is typical of that business type

Property typical of that business type

It might be that a quick phone call can remedy the situation.

A quick phone call might remedy the situation.

- Avoid *a period of* and *a time frame of*

For a period of a few years

For a few years

Sales from a time frame of two years

Sales from two years

Avoid the passive voice, extraneous ideas, and big words when the active voice and smaller words will communicate your meaning. Instead of, *The base home approach was developed to be used as a communication tool that will facilitate the understanding and interpretation of assessments by taxpayers*, write, *The base home approach is a tool to help taxpayers understand and interpret assessments*. If the reason behind development of the base home approach is important, write, *The base home approach was developed as a tool to help taxpayers understand and interpret assessments*.

Writing is often cluttered by repetition of phrases that are clear from the context. Examine each sentence you write to see if it contains ideas that are already implied by the context. For example, in the following sentence, is *in the cost approach necessary? To analyze physical depreciation in the cost approach....* If you are writing a section on the cost approach, it’s already understood.

Make parallel ideas parallel in structure. In the following list, *how old the building is* should be replaced by *age*:

Elements of comparison include the following:

- overall quality
- architectural attractiveness
- how old the building is
- size

Avoid ambiguity.

Appendix 1 continued

- For example, consider the following sentence: *The property was appraised as a whole, owned in fee simple title, and free of any encumbrance.* It is unclear whether the property was appraised as (if) owned in a fee simple title or whether the property was actually owned in fee simple title. Is *property* the subject of the passive verb *was owned* or is *owned* a participle modifying *whole*?
- Dangling modifiers may not completely obscure meaning, but disrupt the flow of thought. Consider, *Subtracting the accrued depreciation, the present value of the property was \$180,000.* Clearly the present value did not subtract the accrued depreciation. However, meaning in the following is not clear: *I used comparable sales from a period of two years to construct a sales comparison grid, which proved to be successful.* What was successful—using sales from two years or constructing a grid?
- Avoid overly complex sentences. Consider this sentence: *Adjust the indicated value of the property for any personal property (such as fixtures, furniture, and equipment) that may be included in the cost estimate and, if necessary, adjust this value, which reflects the value of the fee simple interest, for the property interest being appraised to arrive at the indicated value of the specified interest in the property.* It is difficult to discern the meaning. Possibly, the following is meant: *Adjust the indicated value of the property for personal property included in the cost estimate. The result reflects the value of the fee simple interest. If a partial interest is being appraised, adjust the value of the fee simple interest to obtain the value of the specified interest.*

Coherent Paragraphs

A paragraph is a group of sentences developing either a single topic or a specific part of a larger topic. Begin each paragraph with a sentence that states the topic or, occasionally, with a sentence that makes a transition from the previous paragraph. Reread each paragraph you have written to see if each sentence develops the topic of the paragraph. If you start another topic mid-paragraph, divide the paragraph and develop a new topic sentence or move material that does not belong to an appropriate place.

Some Rules of Punctuation

The Period

The period is used primarily to indicate the end of a declarative sentence. Rules for using periods in lists and with parentheses often cause confusion.

1. In vertical lists, do not use periods (or any end punctuation) unless one of the items is a complete sentence:
 1. sinking-fund method
 2. mortgage-equity method
 3. annuity method

Note: As in the above example, numbers in vertical lists are followed by a period; within a paragraph, numbers in a list are enclosed in parentheses: (1) sinking-fund method, (2) mortgage-equity method, and (3) annuity method.

Appendix I continued

2. Periods are placed *within* the parentheses used to enclose an independent sentence. Periods are placed *outside* the parentheses if the enclosed matter is part of an including sentence:

The result of my calculation is \$24,250. (I multiplied \$12,125 by 2.)

The result of my calculation is \$24,250 (derived by multiplying \$12,125 by 2).

The Comma

The comma indicates a small interruption in the continuity of a thought or sentence. One source of confusion is the compound sentence v. the compound predicate.

1. Clauses of a compound sentence (a sentence in which each clause has a different subject) are generally divided by a comma:

The income approach suggests one value estimate, but the cost approach gives another.

The land value is estimated first, and then the building value is considered.

2. A comma is *not* used in a sentence with a compound predicate (two or more verbs with the same subject):

The income approach gives a value estimate and acts as a check against the other approaches.

The land value is estimated first but bears no relationship to the building value.

3. A dependent clause preceding an independent clause is usually set off by a comma:

If the city data were useful, I would incorporate it in the report.

Although there is little market data to support such a conclusion, it can be supported in other ways.

4. A comma is used in full dates but not with simply the month and year.

April 1, 1999

April 1999

The Semicolon

The semicolon indicates a more marked interruption in a sentence than does a comma. Following are a few common rules for its use.

1. A semicolon is used to separate the two parts of a compound sentence when unconnected by a conjunction:

The subject city has six parks; two are located in the subject neighborhood.

2. When used between clauses of a compound sentence, the following words should be preceded by a semicolon: then, however, thus, hence, yet, so:

Appendix 1 continued

No items of curable functional obsolescence could be found; hence, the amount is zero.

This amount is difficult to verify in the market; however, it is deemed an appropriate amount.

3. For clarity, a semicolon should be used to divide clauses of a compound sentence or items in a series subdivided by commas:

The cost of improvements, such as walks, driveways, and stoops; the cost of plans, including permits, fees, and insurance; and the market value of the land are all discussed in this section.

The gross rent multipliers are as follows: sale 1, 7.5; sale 2, 6.1; and sale 3, 7.2.

The Hyphen and the Dash

Hyphens are used within words to separate parts of a compound word or to indicate a word break at the end of a line. Questions about the appropriate use of hyphens may be resolved by the dictionary or a style guide. Over time, words such as *data base* become hyphenated, and then become a single word, *database*, and some authorities accept the unbroken compound more quickly than others. Some compounds are temporary—two or more related modifiers are hyphenated to prevent ambiguity.

It is an eight-unit apartment building of masonry construction.

The house has a 12-foot ceiling.

The property was of brick-and-mortar construction.

The appraiser used the straight-line method.

The Chicago Manual of Style has a useful table of compounds and their treatment. (See table 6.1 at the end of chapter 6.)

Dashes are marks of punctuation. Typesetters distinguish the en dash, which is longer than a hyphen, and the em dash, which is twice the length of the en dash. The two kinds of dashes have different functions. On a typewriter, the em dash is indicated by two hyphens closed up to the words around them. Some word processing programs can be set to insert the en or em dash using a symbol font or special characters menu.

En dashes are used most frequently to indicate inclusive numbers or dates:

1994–96

April–June 1999

However, if you use *from*, be consistent and pair it with a *to*: from 1994 to 1996, *not* from 1994–96.

An em dash is used in two ways: (1) to emphasize a thought and (2) to indicate a parenthetical element or a break in thought that would disrupt the sentence structure.

The appraiser finds data in the market—not a cost manual.

The appraiser estimated the reproduction cost—the cost of reproducing an exact replica of the building—as \$12 million.

Appendix 1 continued

Reference Materials for Style

Books

A classic resource and a wonderful book for tuning your ear to good writing is Strunk and White, *The Elements of Style*. This slim book can be found in any number of editions and even on line (see web resources below). Strunk and White sets forth elementary rules of usage and principles of style with an abundance of examples.

For more specific help with questions of usage, try Copperud's *American Usage and Style: The Consensus*, last revised and updated in 1980 and now out of print. Copperud compares the judgments of nine authorities on a variety of expressions and usages, such as the difference between *infer* and *imply*. The book is arranged alphabetically, which makes it easy to use. Fowler's *Modern English Usage* is also arranged alphabetically. The latest edition (the third, published in 1996) is edited by R. W. Burchfield and is not as strict on many issues as previous editions and pays more attention to differences between British and American English.

The Chicago Manual of Style, referenced at the end of appendix 2, is a complex and sometimes confusing book. It will not teach you how to write well, but it is thorough in its treatment of the details of punctuation, capitalization, references, numbers, and so on. The book is well indexed and cross-referenced.

Web Resources

The world wide web contains an abundance of information on usage and style—from resources for esoteric grammatical questions to basic tutorials on English sentence structure. A few of these resources are listed below, and they can lead you to more.

Guide to Grammar and Writing—contains helpful hints on basic concepts
<http://go.to/grammar/> or
<http://webster.commnet.edu/HP/pages/darling/grammar.htm>

A structured course produced by the University of Ottawa
<http://www.uottawa.ca/academic/arts/writcent/hypergrammar>

A searchable on-line version of Strunk and White
<http://www.bartleby.com/141>

On-line English grammar—specialized tutorials for business English with alphabetical index
<http://www.edunet.com/english/grammar/index.cfm>

Common errors in English—lists and explains errors in usage, such as confusion between accept and except
<http://www.wsu.edu:8080/~brians/errors/index.html>

Grammar Girl's Guide to the English Language—a collection of the author's pet peeves gleaned from her years of experience as a technical editor with many useful tips, as well as links to other sites on grammar
<http://webwitch.dreamhost.com/grammar.girl/index.html>

Appendix 2

Footnotes and Endnotes—Citation of Authorities

Throughout the *Guide to Real Property Demonstration Appraisal Report Writing* there are reminders to authors of demonstration appraisal reports that each step in the appraisal process must be explained and substantiated. The authority for a statement in the text of the report is often a written work, published or unpublished. Authors may wish to use written sources as authorities for definitions, explanations of techniques, or facts. Notes are used to cite authorities for statements in the text of the report.

Footnotes or Endnotes?

Notes can be either footnotes or endnotes, but not both in the same text. Footnotes are placed on the same page as the material they document. Endnotes are gathered at the end of the section with the heading "Notes." Footnotes have the clear advantage of requiring no leafing back and forth between statement and documentation. They no longer suffer from the disadvantage of making typing of a page difficult. Word-processing programs make preparation of footnotes or endnotes easy. The program numbers and arranges the notes automatically. Footnotes may be used to comment on, to expand, and to qualify material in the text, and to acknowledge personal help. Because of their physical separation from the text, endnotes are less suited for these purposes.

By these criteria, the author whose notes are exclusively references to pages in one or more books or articles, each of which is cited infrequently, may decide to use endnotes. However, the author who wishes to comment on discrepancies between census data and city planning data in describing a neighborhood, to comment on reasons for favoring a particular method of capitalizing income, or to name authors in the text while giving page numbers in the notes should choose footnotes as the appropriate format.

Form and Content of Notes

Whether you choose footnotes or endnotes, you must present them in a standard form. Notes are numbered consecutively through the report in arabic numbers, beginning with 1. A word-processing program will treat the numbers of the notes as superscripts. In the text, these numbers are placed after all punctuation marks (except a dash) at the end of a quotation or a sentence or, if necessary for clarity, at the end of a clause. A note prepared as commentary should be written as a single paragraph beginning with a capital letter immediately after the reference number. A note written to cite the authority for a statement begins immediately after the reference number with the initial letter capitalized.

The purpose of notes is to provide enough information for the reader to find the work cited in a library. The arrangement of the note's content varies according to the style chosen but should always be the same within that style. The following information should be included:

Appendix 2 continued

Full name of author or authors (sometimes an institution rather than a person)
Full title of work (include any subtitle)
Editor if there is one (sometimes the editor is used in place of the author if no author is listed)
Edition (unless it is the first)
Title of larger work of which this is part
Volume number or series title
Publisher
City of publication
State or province if not clear (use two-letter abbreviation)
Date of publication
Page numbers or volume, issue, and page numbers

Examples

The following examples have been chosen from the kinds of works that candidates might wish to cite. Numbers in parentheses refer to the notes below, which illustrate the form of citations for a variety of source materials. Other styles for notes are acceptable as long as the style is self-consistent.

The name of the person or group responsible for the work is entered in its usual order as given on the title page of the work cited. Responsibility may lie with one or more persons (1–4), an association (5–7), or a governmental agency (8–10). The person or group responsible for the work may not be an author but may be an editor or compiler (11–13). When it is not clear where responsibility lies, this element is omitted (14).

The title is transcribed in full as it appears on the title page, not the book's cover or spine (1,12). The title of the larger work is italicized (indicated by underlining if you are working on a typewriter); that of the smaller work (an article or a chapter) is enclosed in quotation marks (2–4).

The description of the larger work includes series number, edition number, volume number, and editor for books; it should include volume number for magazines and journals. Not all publications have all these characteristics (1–14).

The facts of publication are presented as: (place: publisher, date). The place must be distinguished from any other place with that name (1, 2, 8, 13), although if the state is clear, the state abbreviation may be omitted (9). The publisher may be a commercial firm, an organization (and one of its divisions, as in 12), or a government agency. The date is the publication date taken from the book's title page or cover. For magazines and journals appearing at regular intervals (and for annual volume, if desired) place and publisher are omitted; only the date of issue is inside the parentheses.

The final element is the exact page or pages being cited. For books, this element is preceded by a comma; for magazines, journals, and serial volumes it is preceded by a colon.

¹ William N. Kinnard, Jr., *Income Property Valuation: Principles and Techniques of Appraising Income-Producing Real Estate* (Lexington, MA: Heath Lexington Books, 1971), 107–8.

² Thomas H. Hall III, "Hotel and Motel Valuation," in *Encyclopedia of Real Estate Appraising*, 3rd ed., ed. Edith J. Friedman (Englewood Cliffs, NJ: Prentice-Hall, 1978), 635.

Appendix 2 continued

3. Bernice T. Dowell, "Hotel Investment Analysis: In Search of Business Value," *Proceedings of the Sixty-second Annual International Conference on Assessment Administration* (Chicago: International Association of Assessing Officers, 1996): 200.
4. Richard R. Simonds, "Accuracy of the Yield and Direct Capitalization Methods: A Twenty-Year Empirical Study of the Electric Utility Industry," *Assessment Journal* 6(4) (July/August 1999): 53.
5. International Association of Assessing Officers, *Property Assessment Valuation*, 2nd ed. (Chicago: International Association of Assessing Officers, 1996), 19–23.
6. International Association of Assessing Officers, Technical Standards Subcommittee, *Standard on Ratio Studies* (Chicago: International Association of Assessing Officers, 1999), 4.
7. Appraisal Institute, *The Appraisal of Real Estate*, 11th ed. (Chicago: Appraisal Institute, 1996), 100–104.
8. U.S. Bureau of the Census, *Taxable Property Values*, vol. 2, of *1992 Census of Governments* (Washington, DC: Government Printing Office, 1994), 143–45.
9. California, State Board of Equalization, *1997–98 Annual Report* (Sacramento: State Board of Equalization, 1999), 19.
10. Washington County, Oregon, Department of Assessment and Taxation, *Summary of Assessment and Tax Roll, Fiscal Year 1999–2000* (Hillsboro: Department of Assessment and Taxation, 1999), 54.
11. Edith J. Friedman, ed., *Encyclopedia of Real Estate Appraising*, 3rd ed. (Englewood Cliffs, NJ: Prentice-Hall, 1978), 1.
12. Robert M. Clatanoff, comp., *The Valuation of Utility and Transportation Property: A Classified Annotated Bibliography*, Bibliographic Series, no. 5 (Chicago: International Association of Assessing Officers, Research and Technical Services Department, 1983), 16.
13. Byrl N. Boyce, comp. and ed., *Real Estate Appraisal Terminology*, rev. ed. (Cambridge, MA: Ballinger, 1981), 42.
14. *Webster's Third New International Dictionary*, s.v. "market value."

Note: For *well-known* reference books the facts of publication are omitted, but the edition (if not the first) is specified. Page numbers are not used; the item is given, preceded by "s.v." (*sub verbo*, "under the word").

Abbreviated References

After the first full reference in a note, subsequent references to a particular source give author, short title, and page (for example, Kinnard, *Income Property Valuation*, 34).

Notes to Tables and Charts

Notes to tables and charts are numbered separately for each table and chart (not in the sequence of notes to the text) and are placed at the end of the particular table or chart.

Appendix 2 continued

References for Style of Notes

Many style manuals—some tied to specific professions—have been published. The IAAO favors *The Chicago Manual of Style*, which is undergoing revision for a fifteenth edition. The Associated Press publishes a well-regarded manual (the latest edition published in 2000). A visit to a library or a bookstore (physical or on-line) will give you a good idea of what is available.

The following two resources should serve most purposes.

The Chicago Manual of Style, 14th ed. (Chicago: University of Chicago Press, 1993).

Kate L. Turabian, John Grossman, and Alice Bennett, *A Manual for Writers of Term Papers, Theses, and Dissertations*, 6th ed. (Chicago: University of Chicago Press, 1996).

DEMONSTRATION FORM APPRAISAL REPORT GRADING SHEET

Board Copy

Candidate Name: _____

Assessor
License # _____

Grading: 1st _____ 2nd _____

	Section Name	Acceptable Points	Needs Work Points	Omitted Unsatisfactory Points	Total
	Part 1				
1A	Letter of Transmittal	2	1	0	
1B	Highest & Best Use Analysis	2	1	0	
1C	Taxes and Assessment Analysis	2	1	0	
1D	Area/Neighborhood Description	2	1	0	
1E	Site Description, Site Plan	3, 2	1	0	
1F	Building Description, Sketch	3, 2	1	0	
	Total Part 1				
	Part 2				
2A	Cost Approach (maximum 12 points)	12 - 9	8 - 2	0	
2B	Sales Comparison Approach (maximum 12 points)	12 - 9	8 - 2	0	
2C	Income Approach (maximum 8 points)	8 - 6	5 - 2	0	
	Total Part 2				
	Part 3				
3A	Reconciliation, Certification	2	1	0	
3B	Addenda	2	1	0	
	Total Part 3				
	GRAND TOTAL				

	Maximum Points	Minimum Required
Part 1	14	-
Part 2	32	24
Part 3	4	
Total	50	38

Maximum points are 50, minimum passing score is 38 with a minimum of 24 points in Part 2.

Approved: _____ Not Approved: _____

Graded by: _____ Date: _____

Revised: June 2014

FORM REPORT CHECKLIST

General

- Is the date of appraisal 5 years or less from the date of grading submission?
- Has the subject property ever been used before in another demonstration appraisal report?
- Is the report an example of the candidate's best work? Is it the candidate's own original work?
- Do all sections of the report tie together? Do conclusions drawn in the various sections of the report tie to data presented in other sections?
- Are conclusions logical?
- Are the data and descriptions contained in the report of sufficient quality and quantity to afford the grader a clear picture of the subject property and its surroundings?
- Are exhibits or addenda referenced in the text?

Part 1

Title Page (1 page)

- Does it include the subject address, the property type, the date of the appraisal, and the name and address of the appraiser?

Letter of Transmittal (1 page)

- Is the legal description short enough to be included?
- Is definition of market value acceptable and is source referenced?
- Is the letter signed and dated?

Table of Contents (1 page)

- Are all major sections listed?

Introduction (approx. 4 pages)

- Is the scope of work defined?
- Is it stated if interior or exterior inspection?
- Are the intended use and intended users of the appraisal included?
- Are the effective date of the appraisal and the date of the report stated?
- Is the definition and source of market value given?
- Are assumptions and limiting conditions included?
- Does the identity of the subject property include the property type, address, legal description, year built, square footage, style, rooms, site size and exterior pictures?
- Does the "Property History" section conform to USPAP?

- Are the property rights appraised identified?
- Does the Assessment and Tax Analysis include a three year assessment history and address the level of assessments for the comparable sales?
- Is the subject's level of assessment discussed in relationship to the appraised value?
- If the subject was recently sold, is the sales ratio discussed? Is the recent sale discussed in relationship to the appraised value?

Area Description and Analysis (~2 pages)

- Does the City or Area Data include the City's (or Area's) relationship to the subject property or is it merely a list of many facts about the city?
- Are the various elements of the four forces affecting value adequately covered?
- Is the data relevant to the property being appraised?

Neighborhood Description and Analysis (~2 pages)

- Is an appropriate definition, along with a quoted source, included?
- Are the defined boundaries adequately described? Do the four forces appear to affect all properties within the defined neighborhood in a similar manner (does the defined neighborhood appear to include properties not truly comparable to the subject property?)
- Is the neighborhood's stage in the life cycle (growth, decline, etc.) adequately discussed?
- If economic obsolescence is present, is it discussed adequately?
- Are apparent future trends of the neighborhood referred to and their effect on the value of the subject property discussed adequately?

Site Description and Analysis (~2 pages)

- Is the site identified by address and legal description? Are these the same as those contained in other sections of the report? Are topography, drainage, and soil conditions addressed?
- Are site improvements, including those offsite and onsite, discussed?
- Are the adequacies and providers of utilities listed?
- Are zoning and subdivision covenants fully described, including all uses to which the subject property can be put (can be addressed in H & B Use Analysis), as well as the limitations and their effect on the subject property? Is a copy of the applicable zoning ordinance included in the exhibits? Are easements, and their possible effect on value, discussed?
- Do any encroachments exist and are they discussed?
- Is the site's location with respect to various amenities (shopping, transportation, schools, churches, etc.) clearly described (can be part of the Neighborhood description)? If economic obsolescence is present, is a discussion included?
- Are all elements of comparison analyzed in the site valuation section of the cost approach addressed?

Highest and Best Use Analysis (~3 pages)

- Does the analysis adequately describe appraisal principles?
- Is the highest and best use analyzed as if vacant?
- Is the highest and best use analyzed as if improved?
- Are the four criteria adequately analyzed in both analyses?

Improvement Description and Analysis (~3 pages)

- Is the physical description of the improvements (including quality of construction) of sufficient detail needed to support the estimate of cost new? Are building areas, room counts, etc. the same as those listed or illustrated in other sections of the report?
- Is the assessment of the condition of the various components (building and equipment) adequate for estimation of physical depreciation and effective age? Is this assessment reflected in the depreciation section of the cost approach?
- Is functional utility discussed and analyzed sufficiently to address possible functional obsolescence?
- Are conclusions drawn in the economic life analysis logical? If effective ages and chronological ages diverge substantially, is adequate support provided? (can be addressed in the Cost Approach Depreciation analysis)
- Are all improvements, included in the description, addressed in the cost approach?
- Are actual age, effective age, and remaining economic life defined, analyzed and stated?

Appraisal Process (~1 pages)

- Is the Appraisal Process Illustration included? Is there discussion about the process? Is each approach described here or at the introduction to each appraisal approach?
- Are definitions and quoted sources included?
- Are principles and procedures consistent with those found in recognized appraisal texts?

Part 2

COST APPROACH

- Is the process and principles of the Cost Approach discussed?
- Is the correct process for developing the cost approach followed? Is the assembly of the all cost approach components accounted for in the final cost approach value?

Site Valuation (~3 pages)

- Are there a minimum of 3 land sales used in the Site Valuation?
- Do site sale comparables exhibit differences in characteristics (elements or units of comparison) sufficient to demonstrate adjustments?
- Is there at least 1 market derived adjustment applied? (not including the adjustment for time)

- **Are matched pairs appropriately adjusted** (e.g. time terms, other differences) prior to measuring any resulting adjustment? (Sites other than the comparable sales can be analyzed in the adjustment process.)
 - Are the various methods used to value the site adequately described? Is the conclusion as to the method utilized consistent with the market data available?
 - Do descriptions of sale comparables contain sufficient data for proper analysis, particularly with respect to units of comparison and elements of comparison? Is the reader able to readily assess comparability among the sales, as well as to the subject property?
 - Are multiple units of comparison discussed and analyzed? Does the concluded choice of units of comparison appear to be logical and relevant in the market? Are ranges of unit values discussed and are differences calculated?
 - Are market (time) adjustments as concluded in the sales comparison approach utilized?
- NOTE: Given the fact that multiple sales of the same site are typically unobtainable, it is acceptable to utilize sales of identical sites, which sold at different times to perform market (time) adjustments. It is acceptable to use the time adjustment derived from improved properties the Sales Comparison Approach and apply it to the Site Valuation. Must discuss if vacant and improved markets are similar.
- Is data in the descriptions in agreement with the data used in grids? Are mathematical computations accurate?
 - Are adjustments performed in the proper sequence (financing, time, etc.)?
 - Do Net and Gross Adjustments include Market/Time adjustments? (Net and gross adjustments include all transactional and property adjustments).
 - Are units of comparison analyzed by dividing the adjusted sale price by the subjects units of comparison?

Building Cost and Justification (~1 page)

- Is the source of the cost estimate stated? (Recommend using industry standard cost manual – other sources can be used to support RCN, but not as primary source.)
- Are costs of landscaping and site improvements included and depreciated separately from primary improvements?
- Are appliances included in RCN?

Depreciation Analysis (~2 pages)

- Is depreciation defined and the three categories identified?
- Is the difference between curable and incurable depreciation addressed?
- Is it stated that the subject does or does not suffer from all types of depreciation? Is its effect on value identified?
- Is the overall physical depreciation reflective of data derived from the economic life analysis? (Economic Age Life Method is recommended – other methods are Modified Age Life or Breakdown)

- Is economic obsolescence (if it exists) adequately supported in the neighborhood analysis and in the site analysis?
- Are the depreciated values of all site improvements included in the summary?

Summary/Conclusion of the Cost Approach

INCOME APPROACH (~2 pages)

- Is the process and principles of the Income Approach discussed?
- Is the correct process for developing the income approach followed?
- Are there a minimum of 3 rental/sales used in the analysis?
- Are all possible units of comparison discussed and analyzed? Does the concluded choice of units of comparison appear to be logical and relevant in the market? Are ranges of unit values discussed?
- Are elements of comparison discussed in the subject improvement description and those detailed in the descriptions of comparables analyzed?
- Are indicated GRM's averaged or reconciled according to the subject property's comparability to the rental sales analyzed?
- Note – if there are no data available of rentals at the time of sale, it is acceptable to use rental of exact house and rent of a non-sold property.

Summary/Conclusion of the Income Approach

SALES COMPARISON APPROACH (~6 pages)

- Is the process and principles of the Sales Comparison Approach discussed?
- Is the correct process for developing the sales comparison approach followed?
- Are there a minimum of 3 comparable sales used.
- Do improved sale comparables exhibit differences in characteristics (elements of comparison) sufficient to demonstrate proficiency in performing adjustments?
- Are there at least 2 market derived adjustments applied? (not including the adjustment for market conditions)
- Do descriptions of improved sale comparables contain sufficient data for proper analysis, particularly with respect to units of comparison and elements of comparison? Is the reader able to readily assess comparability among the sales, as well as to the subject property?
- Are multiple units of comparison discussed and analyzed? Does the concluded choice of the unit of comparison appear to be logical and relevant in the market? Are ranges of unit values discussed?
- Are elements of comparison discussed in the subject improvement description and are those detailed in the descriptions of comparables analyzed?

- Are adjustments to account for differences in living area performed employing the matched pairs method or by using indicated values per square foot? NOTE: The contributory value for differences in above grade living area may be different than the developed indicated value per square foot.
- Do adjustments developed using matched pairs appear reasonable?
- **Are matched pairs appropriately adjusted** (e.g. market conditions, terms, other differences) prior to measuring any resulting adjustment?
- Are adjustments performed in the proper sequence (financing, market conditions, etc.)?
- Note – The range of unadjusted sale prices should be a wider range when compared to range of adjusted sale prices.

Summary/Conclusion of the Sale Comparison Approach

Part 3

Reconciliation/Certification (~2 pages)

- Does the review of developed data include a summary of the indicated values by the three approaches? Is data contained in the body of the report as well as that utilized in the approaches reviewed?
- Are the strengths and weaknesses of each approach analyzed from a theoretical standpoint as well as applied to the subject property? Is appraisal theory contained in recognized appraisal texts considered? Is the quality and quantity of data presented in each approach thoroughly analyzed?
- Is the selection of the final value estimate consistent with the analysis of the strengths and weaknesses of each approach?

Appendix (~10 pages & up)

- Are the Qualifications of the Appraiser included?
- Do all maps reference the subject property with an arrow and are north arrows included?
- Are the plot plan and the building sketches drawn in a professional manner? Are sufficient dimensions included as well as north arrows? Do the dimensions, when multiplied together, tie to data presented in the report?
- Do photographs adequately supplement the written descriptions of the subject property as well as the comparables?
- Are items revealed in the photographs reflective of data contained in the report?
Example: The elements of comparison analysis states that Sale No. 1 does not have central air conditioning yet the photograph reveals the presence of a central air condenser.

Structure

- Are the various sections of the report generally presented in the order that they appear in the *Guide* and the Grading Sheet?
- Are heading schemes correctly utilized?
- Is the same writing style utilized throughout the report?
- Are spelling, grammatical, punctuation, and typographical errors **prevalent**