

**The Direct Comparison Approach - Part 1**

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**This assignment is a Multiple Choice Assignment**

Marks: 1 mark per question.

1.     Answer: 3  
The principle of substitution holds that the value of property tends to be set by the price that would be paid to acquire a substitute property of similar utility and desirability within a reasonable amount of time.
  
2.     Answer: 3  
Time would be considered an adjustment for market conditions and so it would be the last transactional adjustment made before any property adjustments are made. See Tables 13.2 and 13.4 titled Market Data Grids and Sequence of Adjustments respectively.
  
3.     Answer: 2  
Statement D is false. In addition to reconciliation within the direct comparison approach, reconciliation is also required when value indications are derived using two or more approaches to value.
  
4.     Answer: 3  
Ranking analysis is a qualitative technique for analyzing comparable sales; a variant of relative comparison analysis in which comparable sales are ranked in descending or ascending order of desirability and each is analyzed to determine its position relative to the subject. Statistical analysis, paired sales analysis, and graphic analysis are all quantitative techniques.
  
5.     Answer: 2  
Option (1) is false because the direct comparison approach cannot be used if a property is not in its highest and best use; the residual method of appraisal should be used if a property possesses latent value. Option (3) is false because the direct comparison method of appraisal involves collecting, analyzing, and adjusting market sales data for similar properties and in the absence of sufficient sales, the technique is less reliable. Option (4) is false because the direct comparison approach provides the most reliable estimate of market value when there are sufficient comparables. The cost method is probably the most inexact approach. Option (2) is true.
  
6.     Answer: 1  
Fred would not apply a trend analysis as this is considered a qualitative analysis. Grouped data analysis, statistical analysis and scenario analysis are all considered to be quantitative analyses.
  
7.     Answer: 3  
Philip would use this sale to develop a sale price per developable unit as an indicator of the subject's value. This calculation would automatically account for the different density of development permitted.

8. Answer: 1  
Statement (1) is false. The subject property's highest and best use provides the basis for the research and analysis of comparable sales and therefore is relevant to the highest and best use of the comparables that are selected.
9. Answer: 2  
Adjustments for real property's rights conveyed reflect differences in the rights in realty transferred between the subject and the comparables. When real property rights are sold, they may be the sole subject of the contract or the contract may include other rights, less than all of the real property rights, or even rights to another property or properties. Before a comparable sale property can be used in direct comparison analysis, the appraiser must first ensure that the sale price of the comparable property applies to property rights that are similar to those being appraised.
10. Answer: 4  
There are various factors that are important when appraising a house using the direct comparison method. The date of the sale and the number of comparables available are very important. Also, the dimensions, not just the area, are important. For example, if a property has the same area, but a different depth, this means the frontage will be different, resulting in an incorrect comparison. Finally, comparables must have similar title status to be comparable. For example, one house with an easement and one without may not be comparable.
11. Answer: 1  
Current listings that have been exposed to the market for a reasonable time indicates to the appraiser that market value that the subject property is likely not to exceed.
12. Answer: 3  
The direct comparison approach is applicable for all types of real property interest when there are sufficient recent, reliable transactions to indicate value patterns or trends in the market.
13. Answer: 4  
Typical units of comparison for office properties include price per square foot of gross building area, price per square foot of net rentable area and price per square foot of usable area. Density of construction is also a factor that would have to be considered, for vacant or improved sites. See text for a list of typical units of comparison.
14. Answer: 2  
The transaction would be categorized as a non-arm's length transaction. A non-arm's length transaction is a transaction which does not fall under the definition of an arm's length transaction; a transaction between unrelated parties under no duress. Whether it could be considered a good sale comparable would require a lot of additional research and verification to ensure that the transaction was based upon market value. There was no indication given in the little information given to indicate that this was a distress transaction.

15. Answer: 2  
A developer or seller may have arranged a buydown, paying cash to the lender so that a mortgage with a below-market interest rate can be offered. The buyer may possibly have paid a higher price for the property to obtain below-market financing. The appraiser needs to investigate if these arrangements actually affected the sale price of the property. Market evidence is always the best indicator.
16. Answer: 1  
An opinion of market value using the direct comparison approach is through the eyes of well-informed purchasers.
17. Answer: 4  
Option (4) is false. Special care must be taken when analyzing pairs of adjusted values because the difference measured may not represent the actual difference attributable to the distinguishing characteristic. The difference may include other aspects of the property, not just the one characteristic being studied. Options (1), (2), and (3) are true.
18. Answer: 2  
An adjustment for conditions of sale usually reflects the motivation of either a buyer or a seller who is under duress to complete a transaction. In many situations, the conditions of sale significantly affect transaction prices. In other words, it reflects the difference between the motivations of the seller or buyer on the date of sale of a comparable and the typical motivations of buyers and sellers in an arm's length transaction.
19. Answer: 2  
Option (2) is correct. In comparative analysis, quantitative adjustments are derived and applied to the sale prices of the comparable properties. Qualitative analysis is used to determine which comparable sales are inferior, similar, or superior to the subject property for a specific element of comparison.
20. Answer: 3  
Statement (3) is true; in an analysis of highest and best use, the market usually limits the number of alternatives to a few logical choices.
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- 20 Total Marks