

BUSI 330 Answer Guide No. 2

1. Answer: 3 The principle of conformity, and its sub-principle regression, is illustrated by this example of a contractor who has built an expensive home in a run-down neighbourhood. Poorer quality homes tend to lower the value of the more expensive homes in a neighbourhood. In this situation, the contractor should have constructed a home that was compatible with the existing dwellings.
2. Answer: 2 Primary transportation systems, including federal and provincial highway systems, railroads, airports, ports and navigable waterways are examples of man-made and natural environmental forces that may impact real property.
3. Answer: 2 When reconciling values, the appraiser reviews all the approaches to value and then selects the one or ones that best indicate a value for the subject. The various approaches may be weighted based on the quality of data used and their applicability to the property being appraised. For instance, singlefamily dwellings typically rely on the cost and direct comparison approaches, while commercial and industrial properties are more often based on the income approach. However, taking a simple average of the values from the different approaches is rarely, if ever, appropriate.
4. Answer: 4 Data sampling is useful in appraisal when there is incomplete information or data is scarce. One of the advantages of sampling is it is less expensive to gather than attempting to obtain complete market data. However, care must be taken to ensure it is gathered and interpreted appropriately, to ensure it is reliable.
5. Answer: 3 The surplus productivity remaining after these costs have been paid will tend to set the land value. If the amount of surplus productivity changes, so will the land value.
6. Answer: 3 Option (3) is true. Option (1) describes an easement, Option (2) describes a profit à prendre, and Option (4) describes airspace.
7. Answer: 4 Since the subject now has lake access, it is likely more valuable than a lot that does not have lake access. Remember to read the easement agreement to understand its terms. Options (1), (2), and (3) would likely decrease the value of the property.
8. Answer: 4 Since this is a recently completed project, the cost approach would be useful in determining the cost to complete new figure. The direct comparison approach would be used to find sales of similar recently completed multi-use retail/office projects and the capitalization rates achieved in those transactions. Comparable operating revenues and expenses would be researched to determine a net operating figure and an indication of capital value using the income approach determined by converting the net operating income by the appropriate capitalization rate. Finally, an analysis of the cost to complete new and the figure derived using the direct comparison and income approaches would be reconciled to determine the final opinion of value.
9. Answer: 2 The assessment ratio is the ratio of assessed value to market value.
10. Answer: 4 If interest rates decrease, mortgage financing becomes more affordable and adds some prospective purchasers to the market. Thus, demand for residential properties would likely increase. Options (1), (2), and (3) will likely decrease the demand for residential real estate.
11. Answer: 4 Option (1) may (unfortunately) be somewhat true in practice, where appraisers present useless general data to bulk up a report – but the true benefit of general data is to help the reader understand the market context and the basis for the valuation analysis. Option (2) is false, as quality of data is more important than quantity. Option (3) is false, as the appraiser needs specific data to apply each of the three approaches to value. Option (4) is true: grids are very helpful in data collection to assemble, sort, and make sense of a large amount of data.

12. Answer: 4 The principle impacting value is contribution. Contribution is the concept that the value of a particular component of real estate is measured in terms of its contribution to the value of the whole property.

13. Answer: 2 The principle of balance holds that real property value is created and sustained when contrasting, opposing, or interacting elements are in a state of equilibrium. This principle applies to relationships among various property components as well as the relationship between the costs of production and the property's productivity. Economic balance is achieved when the combination of land and improvements is optimal, i.e., when no marginal benefit or utility is achieved by adding another unit of capital. The fifth pool costs more to build than it will earn in increased returns from the property. It is therefore not profitable to include the fifth pool in the design for the hotel. Option (2) is correct. Option (1) illustrates supply and demand. Option (3) is an example of substitution, and Option (4) is an example of anticipation.

14. Answer: 3 Establishing the scope of work is necessary to ensure credible results that meet client expectations. This should ideally be established with the client before undertaking the assignment, but must also be reasonable in the circumstances: the appraiser faces a burden of proof to support the scope of work decision and the level of information in the report. Option (3) is a valid statement regarding a limited scope of work assignment. The other options present valuation practices that are unlikely to lead to credible value conclusions.

15. Answer: 1 Option (1) is the correct answer. It is in the reconciliation process where an appraiser determines the final opinion of value, not an element of highest and best use analysis. Options (1), (2), and (3) are characteristics of highest and best use analysis.

16. Answer: 1 The complete bundle of rights includes the right to sell an interest, the right to lease an interest, and the right to mortgage an interest. Zoning falls under police power, one of the four powers of government, which allows the government to regulate property to protect public safety, health, morals, and general welfare.

17. Answer: 3 Highest and best use is one of the First Principles of Value – it must be considered in all valuation assignments, in order to ensure you are appraising the maximally productive use of the land. As the price of condominiums rise, the potential for redeveloping the duplex may increase. Highest and best use helps identify appropriate comparables; here, the duplex is ideally compared to other properties that have similar redevelopment potential.

18. Answer: 1 Option (1) is correct. There are two types of fee timesharing: timeshare ownership and interval ownership. Options (2), (3), and (4) are types of non-fee timesharing.

19. Answer: 3 In a traditional condominium, the owner holds title to an individual unit and an undivided partial interest in the common areas.

20. Answer: 3 Option (3) is false because in a basic data array grid, the appraiser lists significant characteristics of the subject and comparable properties that have been isolated. This helps him or her identify those factors that may or may not account for differences in value. Options (1), (2), and (4) are true. The data array grid only presents data; it is not used for comparing the properties. On the other hand, in an adjustment grid, the sale properties are compared to the subject and specific adjustments are made to their prices. Market data grids are the most common tool used to organize data. They can be as detailed as the analysis dictate. Lastly, only the data that helps to support your value needs to be included in the report.