



Department of Local Government Finance

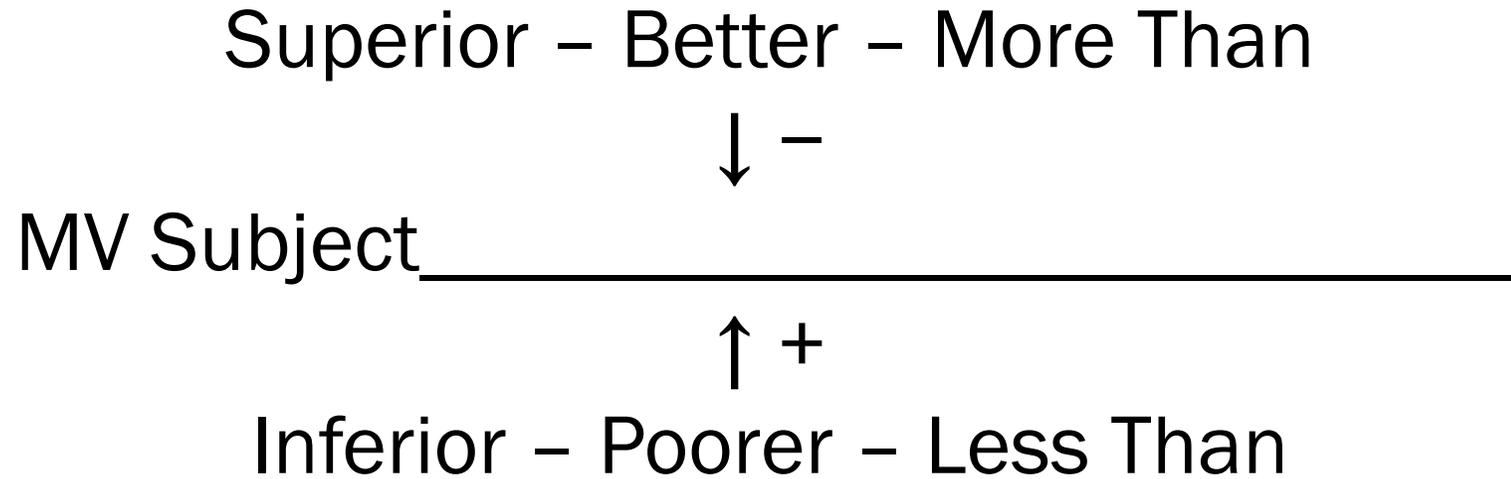
The Sales Comparison Approach

Part B

2020 Level I Tutorials



Sales Comparison Approach





Sales Comparison Approach

- Lump sum adjustments are actual dollar amounts that represent the market's perception of the difference between the comp and the subject. For example, an adjustment of \$1,000 may represent the market's opinion of the contributory value of a second bathroom.





Sales Comparison Approach

- Percentage adjustments represent a value difference between the comp and the subject, expressed as a percentage of the sale price.
- Cumulative percentage adjustments – differences are expressed as a percentage for each item and are summed to determine the net adjustment to the comp sale price.





Sales Comparison Approach

- Multiplicative percentage adjustments – individual adjustment percentages are multiplied by each other to determine the total adjustment.





Sales Comparison Approach

- Percentage and lump sum adjustments are made in successive order:
 - Property rights conveyed
 - Financing terms
 - Conditions of sale
 - Market conditions
 - Location
 - Physical characteristics
 - Non-realty components





Sales Comparison Approach

- The adjustments always have to be done in this order.
- There are several different ways to determine the adjustments, and we will briefly discuss them.





Sales Comparison Approach

- Paired sales:
 - Useful when many homogenous sales are available
 - One method of determining time adjustments as long as there have been no changes between the sale dates of the resale properties
 - Can be used to estimate qualitative and quantitative adjustments





Sales Comparison Approach

- Multiple Regression Analysis:
 - Does not require strict similarity between parcels
 - Statistical technique for estimating unknown data on the basis of known and available data (sale prices and property characteristics)





Sales Comparison Approach

- Adaptive Estimation Procedure (AEP or feedback):
 - A valuation equation is specified and adjusted as data on individual sales are sequentially processed and analyzed. The process continues, with each sale processed many times, until the model converges on a satisfactory solution.



Sales Comparison Approach

- Cost Method:
 - Based on the theory that the market value of an improved parcel can be estimated by the sum of the land value and the depreciated value of the improvements.
 - Formula is: $MV = LV + (RCN - D)$



Sales Comparison Approach

- Now let's try a Paired Sales Problem that will show how the attribute amounts are determined.

Level I
Sales Comparison Approach
Class Problem # 1
Paired Sales Analysis

Listed below are five sales of comparable single family residential properties that have recently occurred in a neighborhood. Using the given data below determine the appropriate lump sum dollar adjustment (Contributory value) for the following elements:

Bedroom: _____

Bathroom: _____

Basement: _____

Extra parking bay in garage: _____

Sale	# 1	# 2	# 3	# 4	# 5
Sale Price	\$ 140,400	\$ 126,000	\$ 130,000	\$ 124,000	\$ 135,500
Sq. Feet	1,800	1,650	1,800	1,600	1,800
Bedrooms	4	3	4	3	4
Bathrooms	2	2	2	1	2
Foundation	Basement	Crawl Space	Crawl Space	Crawl Space	Basement
Garage	2 Car	2 Car	2 Car	2 car	1 Car

(NOTE: Variations in square footage are due to the different number of rooms and do not require adjustment; this is allowed for in the adjustments for bedrooms and bathrooms.)



**Sales Comparison Approach
Class Problem # 1 Answer
Paired Sales Analysis**

Bedroom:

Sale 2 and Sale 3 are identical except Sale 3 has one extra bedroom.

Sale 3	4 bedrooms	\$130,000
Sale 2	3 bedrooms	(\$126,000)
	indicated adjustment	\$4,000

Bathroom:

Sale 2 and Sale 4 are identical except Sale 2 has one extra bathroom.

Sale 2	2 bathrooms	\$126,000
Sale 4	1 bathrooms	(\$124,000)
	indicated adjustment	\$2,000

Foundation:

Sale 1 and Sale 3 are identical except Sale 1 has a basement.

Sale 1	Basement	\$140,400
Sale 3	Crawl Space	(\$130,000)
	indicated adjustment	\$10,400

Extra parking bay:

Sale 1 and Sale 5 are identical except Sale 1 has a 2 car garage.

Sale 1	2 car garage	\$140,400
Sale 5	1 car garage	(\$135,500)
	indicated adjustment	\$4,900



Level I
Sales Comparison Approach
Class Problem # 1 Answer
Paired Sales Analysis

Listed below are five sales of comparable single family residential properties that have recently occurred in a neighborhood. Using the given data below determine the appropriate lump sum dollar adjustment (Contributory value) for the following elements:

Bedroom:	\$4,000
Bathroom:	\$2,000
Foundation:	\$10,400
Extra parking bay in garage:	\$4,900

Sale	# 1	# 2	# 3	# 4	# 5
Sale Price	\$ 140,400	\$ 126,000	\$ 130,000	\$ 124,000	\$ 135,500
Sq. Feet	1,800	1,650	1,800	1,600	1,800
Bedrooms	4	3	4	3	4
Bathrooms	2	2	2	1	2
Foundation	Basement	Crawl Space	Crawl Space	Crawl Space	Basement
Garage	2 Car	2 Car	2 Car	2 car	1 Car

(NOTE: Variations in square footage are due to the different number of rooms and do not require adjustment; this is allowed for in the adjustments for bedrooms and bathrooms.)

