Mass Appraisal:
The Three Approaches to Value

The IMA Course, Introduction to Income Approach to Value is the opening assignment for this course. It is an overview of the theory and techniques of the income approach to value. The material covers income and expense analysis, estimating operating income, rental units of comparison and capitalization methods and techniques.

Three Approaches to Value Section

Chapter 1: Principles of Economics
This chapter covers economic concepts of supply and demand, and various types of costs associated with revenue. The determination of a fixed or variable cost is also covered in this chapter.

Chapter 2: Urban Macroeconomics
This chapter covers economics at the federal level, how the economy affects supply and demand in the real estate market.

Chapter 3: Introduction to Real Estate Appraisal
This chapter introduces the three approaches to value.

Chapter 4: The Appraisal Process
This chapter covers the concepts of what appraisal approach to use in a given situation, the concept of highest and best use, and what factors affect property value. This chapter also covers the legal responsibilities of an appraiser.

Chapter 5: Comparative and Cost Methods of Appraisal
This chapter introduces the concepts of depreciation both curable and incurable, remaining economic life of a building, and obsolescence. This chapter also discusses how and when to make adjustments for comparable properties.

Chapter 6: Market Comparison Approach
This chapter covers the concept of the economic principle of substitution and how to calculate the present value of a loan. Students will be asked to demonstrate their knowledge and application of the market comparison approach in the real world.

Chapter 7: Market Applications of Statistical Techniques
This chapter introduces linear regression. Concepts covered in this chapter include, coefficients X and Y, the error term e, multicollinearity, the types of variable used to produce a model, R squared, F value, t value, and standard error of the estimate (SEE).
Chapter 8: Land Valuation
This chapter discusses all the factors that affect land value. Also included in this chapter is the concept of stratification and the different approaches to value land.

Chapter 9: Cost Method of Appraisal
This chapter discusses the pros and cons to using the cost approach and when it’s best to use this approach. Depreciation is discussed in greater detail, and students have an opportunity to do a hands on cost approach.

Chapter 10: Financial Statements
This chapter discusses general accounting practices and principals. The concepts of capital cost allowance CCA, and undepreciated capital cost (UCC) are also discussed here.

Chapter 11: Analysis of Income and Expenses
This chapter covers forecasting a net operating expense (NOI), calculation of the gross rent multiplier (GRM), calculation of the net rent multiplier (NRM), and calculation of the overall capitalization rate (OCR). Student get hands on experience in producing an income and expense statement.

Chapter 12: Taxation of Real Estate Investment
This chapter covers the concept of determining whether profit should be taxed as a capital gain or business income. Students get hands on experience in calculating CCA, taxable gain and total tax reversion.

Chapter 13: Multi-Period and Single-Period Measures of Return
This chapter covers the concept of comparing different investments and when similar investments can be compared to one another. Concepts such as gross income multiplier (GIM), net income multiplier (NIM), and equity dividend rate (EDR) are introduced in this chapter.

Chapter 14: The Income of Investment Method of Appraisal
This chapter builds on the previous chapter about comparing real estate investments. Other concepts covered include escalator clauses, liquidity, and risk analysis.

Chapter 15: The Income Approach to Value
This chapter covers in detail the income approach allowing the students to apply this technique in an exercise. The different ways to derive a capitalization rate is introduced using direct market observation, weighted average method and summation method.

Chapter 16: Mortgage Equity Valuation Techniques
This chapter covers the application of the Akerson Formula, the Band of Investment technique, calculation of the Equity Dividet Rate and Discount Cash Flow.

Chapter 17: Residual Methods of Valuation
This chapter covers the application and calculation.
Introduction to Income Approach to Value Section

Chapter 1:  Traditional Approaches to Estimate Value
This chapter is a brief review of the application of the three approaches to estimate value.

Chapter 2:  Estimating Net Income
This chapter provides an explanation of key terms that are most prevalent in real estate appraisal. It also provides the assessor with an understanding of how to perform an analysis of income and expenses to estimate operating income and rental units of comparison.

Chapter 3:  Choosing the Capitalization Rate
This chapter introduces the capitalization process and the methods used to choose the interest rate. Methods of selecting an interest rate by summation method and band of investment method are also covered. The selection of the rate for capitalization recapture, straight-line method of recapture and building residual technique are examined as well.

Chapter 4:  Selecting the Capitalization Technique
This chapter covers the theory and application of the three standard capitalization techniques: property residual technique, building residual technique and land residual technique.

Chapter 5:  Methods of Capitalization – Annuity & Sinking Fund
This chapter introduces the theory, application and comparison of the Inwood Annuity Method, Sinking Fund and Straight Line Method. Students are expected to have knowledge of The Six Functions of One Dollar.

Chapter 6:  Case Study
The case study is a comprehensive review of all the materials from Chapter 2-5. The case study requires the student to perform an analysis of income and expenses, development and selection of capitalization rate.

Duration:  1 Year
Prerequisites:  None
Location:  Correspondence