



APB Valuation Advisory #4 ***Identifying Comparable Properties***

This communication is for the purpose of issuing guidance on recognized valuation methods and techniques. Compliance with such guidance is voluntary, unless mandated through applicable law, regulation, or policy.

Date Issued: August 14, 2013

Application: Residential and Non-residential Real Property

Issue: As part of its ongoing responsibilities, the APB is tasked with identifying where appraisers and appraisal users believe additional guidance is required. Once such issue identified by the APB is identifying comparable properties. Comparability analysis is a fundamental study in determining property value. This analysis involves a side-by-side examination of physical and transaction characteristics of the identified comparable properties relative to the subject. The reliability of this valuation technique relies heavily on the proper selection of suitable comparable properties.

This guidance discusses the terms and definitions associated with a comparable property, the characteristics generally considered for determining comparability; and the degree of suitability of a property as a comparable.

The guidance addresses whether there is a threshold of differences, which based on their magnitude, automatically disqualifies a property as comparable.

Lastly, the guidance examines a closely related topic; the differences between the terms, “market area” and “neighborhood” and a broad summary of the characteristics to consider for delineating a market area.

With regard to the use of “distress sales” (e.g., short sales, foreclosures) please see APB Valuation Advisory #3, *Residential Appraising in a Declining Market*. The Board is also considering developing guidance on the valuation of new residential construction.

Subject Matter Experts: The Appraisal Practices Board and The Appraisal Foundation wish to express our sincere gratitude to each of the following Subject Matter Experts for volunteering their time and expertise in contributing to this document:

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The APB would like to express its thanks to Gary Taylor, former APB Chair, for his participation and direction on this project.

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Identifying Comparable Properties

I. Introduction

1 Real property valuation considers three approaches to value which are distinctly different given
2 their underlying foundational premises. However, all three approaches rely on a comparability
3 analysis in developing credible results under each approach. The Sales Comparison Approach
4 provides an indication of value based on units of comparison derived from sales of similar or
5 comparable properties. The Cost Approach requires land value comparability analysis, cost
6 comparability analysis, and market extracted depreciation comparability. The Income Approach
7 requires income/lease comparability, expense comparability, income potential comparability,
8 capitalization rate, and minimum acceptable rate of return on investment comparability. All of
9 the above approaches rely on the same fundamental underpinnings of determining
10 “comparability.”

11 Therefore the identification of what constitutes a similar, or “comparable property” is critical to
12 the proper application of the three approaches to value. In this Advisory we will provide
13 guidance to assist in the identification of comparable properties.

II. Property Characteristics

14 The principle of substitution is the foundation of comparability. It states that a rational buyer
15 will not pay more for an item than the cost of an acceptable substitute.¹ The appraiser must
16 analyze transactions of closed sales, pending sales, and listings of properties and determine
17 which are acceptable substitutes by weighing the elements of comparison. In developing an
18 opinion of value for the subject property, the appraiser attempts to answer the question “What
19 would a buyer of the comparable property have paid for the subject property given the observed
20 sale price (or asking price, in the case of a listing) for the comparable property?”

21 Generally speaking, the more similar a competing property is to the subject property, the better.
22 A high degree of similarity in property characteristics between the subject property and the
23 available properties improves comparability. Many courts recognize “...that ‘similar’ does not
24 mean ‘identical,’ but means having a resemblance, and that property may be similar in the sense
25 in which the word is here used though each possesses various points of difference.”²

26 The appraiser weighs the relevance of the property characteristics (including, but not limited to:
27 location, economic, legal and physical factors) based on the importance assigned by market
28 participants. The most relevant property characteristic(s) are then examined on each available
29 property. By examining and weighing the relevant property characteristics, the appraiser is
30 better prepared to select the most appropriate comparable properties available. Another court has
31 defined a comparable property as one that “Has similar use, function, and utility; is influenced by
32 the same set of economic trends and physical, governmental, and social factors; and has the
33 potential of a similar highest and best use.”³

¹ Adapted from *The Appraisal of Real Estate*, 13th Ed., pp. 38-39.

² *City of Chicago v. Vaccaro*, 97 N.E.2d 766, (Ill. 1951).

³ Montana Code Annotated 2011, 15-1-101, retrieved from <http://data.opi.mt.gov/bills/mca/15/1/15-1-101.htm> on 08/26/2012

34 Because real property is truly unique, there are always differences between the property under
 35 analysis and the selected competing properties used for comparative purposes. When
 36 considering a property as a comparable, the appraiser should first ask “Is the property
 37 sufficiently similar, in all fundamental aspects to the subject property?” This leads to the critical
 38 analysis of evaluating the property characteristics that make a property sufficiently similar. The
 39 following chart below summarizes the primary elements of comparison:

<i>Elements of Comparison</i>	<i>Description</i>
Location (Market Area) Aspects	Other than market conditions at the time of sale, location is the most distinctive element of property analysis. Would a potential buyer of the subject consider the comparable property as a potential substitute given its location within the market area?
Economic Aspects	<p>Economic aspects include seller concessions, buyer’s expected expenditures after sale, financing considerations to reflect “cash-equivalent” pricing. In lease comparability, economic aspects might include reimbursement terms, landlord amortization of tenant improvements, etc.</p> <p>Also, includes market conditions: especially time, which is an element of all property analysis. Did the comparable transaction occur under similar market conditions as the subject property’s date of analysis? What are the driving elements which differ and contribute to the adjustments necessary to infer pricing within the current market?</p>
Legal Aspects	<p>Comparability of property title and occupancy tenure, generally expressed as “interest appraised”</p> <p>Highest and Best Use: significant effort should be given to compare similar transactions based on the subject property’s highest and best use.</p>
Physical Aspects	Each type of real estate (residential and non-residential) has physical characteristics which are desired or required by buyers. Different market areas demonstrate different buyer preferences with respect to cost/value of physical property characteristics. An exhaustive list could be compiled considering all of the various physical elements by asset class which might be measured and compared. What is significant to the analysis are those elements that contribute to measurable price differences in the market. A summary listing of typical major physical elements of comparison by asset class is provided as a supplement to this table.

III. Comparable Suitability

40 *Sales information*⁴: Before a property can be considered a comparable, the appraiser must
41 confirm the type of sale transaction. In other words, did the sale occur under conditions
42 commensurate with the type and definition of value under consideration? In the case of *market*
43 *value*, the following factors must be considered:

- 44 1. Did the sale convey property rights similar to the property rights being appraised? Were
45 the property rights similarly encumbered or unencumbered at the time of sale?
- 46 2. Were both the buyer and seller typically-motivated?
- 47 3. Were both parties well informed or advised and each acting in what they considered their
48 own best interests?
- 49 4. Was the property allowed exposure in the open market for a reasonable length of time?
- 50 5. Was payment made in cash or its equivalent?
- 51 6. Was financing, if any, on terms generally available in the community at the time of sale
52 and typical for the property type in its locale?
- 53 7. Did the price represent normal consideration for the property sold unaffected by special
54 financing amounts and/or terms, services, fees, costs, or other credits incurred in the
55 transaction?⁵

56 The appraiser's experience and skill in consistently observing the market coupled with ongoing
57 interviews with buyers, sellers, and brokers as to what factors drive local values assist in
58 providing credible value indications by comparison.

59 In addition to closed sales, knowledge of listings and pending (under contract) properties may be
60 used to demonstrate the most current market activity and current competition considered by
61 potential buyers. Because the final conveyance amount is unknown, listing comparables and
62 pending sales should be used cautiously, but are often helpful: (a) in establishing the upper limit
63 of probable value in the final reconciliation, or (b) as guidance in times of rapidly changing
64 market conditions.

65 The appraiser cannot control the quality or suitability of the activity available in the market
66 during the timeframe of analysis. Information could be limited in many markets, and many
67 properties do not lend themselves to simplified comparison. In such cases, analysis of older
68 transactions may also be required due to limited current activity in the market; however, such
69 data should be cautiously considered. It is necessary for the appraiser to clearly express these
70 limitations and to reconcile the reliability of the approach where a substantial number of the
71 elements are sufficiently different.

72 *Magnitude of adjustments*: In markets where competing properties are highly similar to the
73 subject property, it is unlikely that large and/or numerous adjustments would be required.

⁴ Sources of sales information are discussed in APB Valuation Advisory #2: *Adjusting Comparable Sales for Seller Concessions*.

⁵ *Real Estate Valuation in Litigation*, 2nd Edition, pp. 204-205.

74 However, in markets that are less homogeneous or have limited market activity, it is possible that
75 large and/or numerous adjustments may be necessary.

76 When a comparative analysis requires large and/or numerous adjustments, questions may arise
77 regarding the true comparability of the property.

78 At what point is a competing property *not* considered comparable? While there is no single
79 source to determine comparability, it is up to the appraiser within the context of the scope of
80 work to determine whether the property is comparable and will lead to credible assignment
81 results. Consideration of the quantity and magnitude of adjustments may assist in identifying
82 when a property becomes suspect as a comparable; however, this does not conclusively result in
83 such a determination. “The *degree* of similarity varies from case-to-case, so neither appraisers
84 nor the courts can arrive at a formula to test comparability or similarity. In one instance,
85 adjustments totaling 15% of the sale price may indicate that the property is, in fact, not a
86 comparable sale; but, in another instance a sale with total adjustments equaling 15% of the sale
87 price might turn out to be the most comparable sale available.”⁶

88 In summary, the appraiser identifies the comparability of the property by determining whether it
89 is a competitive substitute for the subject property. The quantity and/or magnitude of the
90 adjustments may not dictate comparability.

91 Some of the most common written guidelines on this issue are the appraisal underwriting
92 guidelines issued by Government Sponsored Enterprises (GSE) (e.g., Fannie Mae). It is
93 important to recognize that these appraisal guidelines are written primarily to determine whether
94 or not a property is eligible for purchase on the secondary mortgage market, and not as a
95 definitive tool to determine comparability.

96 GSE guidelines also apply exclusively to residential properties, generally speaking the most
97 homogeneous property class nationally with sufficiently similar properties transacting within the
98 shortest period of time. It is typical to find that appraisals of non-residential properties, complex
99 residential properties, and properties in unstable markets require the use of comparable
100 properties that may possess greater differences.

101 According to Fannie Mae, a property is comparable if the market considers it a competitive
102 substitute. Once a property is determined to be comparable by the appraiser, then appropriate
103 analysis and market adjustments are applied. “Analysis and adjustments to comparable sales
104 must be based on market data for the particular neighborhood and for competing locations – not
105 on predetermined or assumed dollar adjustments. **Adjustments must be made without regard**
106 **for the percentage or amount of the dollar adjustments.”**⁷ (Bold added for emphasis.)

107 The key is for the appraiser to adequately explain and support the rationale for using the
108 comparable properties selected in the appraisal report. Such narrative assists in demonstrating
109 the reliability and credibility of the opinion of value. Where the comparable properties possess
110 significant differences from the subject property, additional comparable properties may be
111 included for additional support of the opinion of value.

⁶ *Real Estate Valuation in Litigation*, 2nd Edition, p. 204.

⁷ <https://www.efanniemae.com/sf/guides/ssg/relatedsellinginfo/appcode/pdf/appraisalguidance.pdf>
p.20. 08/29/2012.

112 Appropriate analysis, consideration, and explanations are necessary regardless of the amount of
113 an adjustment. If numerous adjustments or a singular atypical adjustment is required, then an
114 explanation and support (i.e., stating search criteria and results) regarding the lack of more
115 “similar” properties that require fewer adjustments should be explained.

116 If the subject property has a significant element of comparison that competing properties lack or
117 conversely, if the subject property lacks a significant element of comparison that competing
118 properties possess, explanation is necessary. In such situations, generally recognized appraisal
119 methodology would dictate an effort to use comparable properties that are both superior and
120 inferior to the subject for that specific element of comparison (this process is often referred to as
121 “bracketing”). Comparing properties with superior, similar, and inferior elements of comparison
122 to the subject property may assist in validating the adjustments applied.

123 Following is an illustration of bracketing on two physical features of a residential subject
124 property. The features bracketed in this illustration are the subject property’s gross living area
125 above grade and the garage count. This is a generalized illustration of the sales comparison
126 analysis focusing on these two units of comparison only (highlighted in yellow).

127 In the following example, the subject property’s gross living area (GLA) was measured at 2,200
128 sq. ft. The GLA feature is bracketed by comparable property # 1 that has an inferior GLA at
129 1,950 sq. ft. and by comparable property # 2 that has a superior GLA at 2,500 sq. ft.

130 Similarly, the subject’s 1-car garage amenity is bracketed by comparable property # 1 that has a
131 superior garage count of 2-cars and by comparable property # 2 that has an inferior garage
132 amenity of no garage.

133 The comparable sales’ inferior features in comparison to the subject property’s features were
134 adjusted upward (positive) and conversely, the comparable sales’ superior features in comparison
135 to the subject property’s features were adjusted downward (negative).

Subject		Comp 1	+/- \$Adjustment	Comp 2	+/- \$Adjustment	Comp 3	+/- \$Adjustment
Sales Price	\$183,000	Sales Price	\$ 182,000	Sales Price	\$ 180,000	Sales Price	\$ 185,000
Seller Concessions	None Noted	None Noted		None Noted		None Noted	
Location	N;Res;	N;Res;		N;Res;		N;Res;	
Site Size	10500 sf	10500 sf		10500 sf		10500 sf	
View	N;Res;	N;Res;		N;Res;		N;Res;	
Quality of Construction	Average	Average		Average		Average	
Number of Bedrooms	3	3		3		3	
Number of Bathrooms	2.1	2.1		2.1		2.1	
Above Grade GLA	2200	1950	7,500	2500	(9,000)	2090	3,300
Basement	1200sf0sfin	1200sf0sfin		1200sf0sfin		1200sf0sfin	
Garage	1 Car Garage	2 Car Garage	(5,000)	No Garage	12,000	2 Car Garage	(5,000)
Adjusted Sales Price			\$ 184,500		\$ 183,000		\$ 183,300

136 In this illustration, the subject's sale price of \$183,000 is also bracketed by the pre-adjusted sales
137 prices of the comparable properties (\$180,000 to \$185,000). Both downward and upward
138 adjustments are applied resulting in the adjusted sale price range of \$183,000 to \$184,500 (the
139 value bracket of probable range) for the subject property.

140 When a sales comparison approach requires substantial and varied adjustments, the
141 reconciliation should enable the reader to understand why the sales were used. Adequate
142 reconciliation is a required and integral part of any value conclusion. Standards Rule 1-6(a) of
143 the *Uniform Standards of Professional Appraisal Practice*⁸ states: "In developing a real property
144 appraisal, an appraiser must reconcile the quality and quantity of data available and analyzed
145 within the approaches used."⁹

146 *Highest and Best Use*: A necessary consideration for determining if a property is comparable is
147 whether the highest and best use of the subject property and the competing property is the same.
148 "Appraisers have a special responsibility to scrutinize the comparability of all data used in a
149 valuation assignment. They must fully understand the concept of comparability and should
150 avoid comparing properties with different highest and best uses, limiting their search for
151 comparables, or selecting inappropriate factors for comparison."¹⁰ Likewise, the Supreme Court
152 of the United States in *Rum River Bloom Co. v. Patterson* (98 U.S. 403, 25 L. Ed. 206), states that
153 the highest and best use of a property should consider a change in current use of a property "by
154 reference to the uses for which the property is suitable, having regard to the existing business or

⁸ *UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE* (USPAP) 2012-13 Edition p. U-20.

⁹ *Ibid*

¹⁰ *The Appraisal of Real Estate*, 13th Edition. p. 170.

155 wants of the community, or such as may be reasonably expected in the immediate future.”¹¹
156 These factors can be applied to both the subject property and the selection of comparable
157 properties.

158 **IV. Market Area and Neighborhood Characteristics**

159 Location is a primary consideration in the comparable property selection process. Ideally, a
160 comparable property would compete with the subject property in location as well as other
161 characteristics. When considering a comparable property’s location competitiveness to the
162 subject property, the subject property’s local market performance and characteristics are
163 measured alongside the comparable property’s local market. Preferably, the comparable
164 property is located in the subject property’s market area.

165 While the terms *market area* and *neighborhood* are often used interchangeably, in truth, the two
166 terms have distinctly different meanings, in both residential and non-residential appraising.
167 Data and analysis related to a neighborhood is broad and general in nature, whereas data and
168 analysis related to a market area is specific and related to a particular property type or category.¹²
169 The confusion between these two concepts arises in practice because the method of delineation
170 for both a market area and a neighborhood follow the same four basic principles. Both can be
171 defined by their physical boundaries (man-made and natural) and their intangible boundaries
172 (social and political).

173 Appraisers make a distinction between the neighborhood in which a property is situated and the
174 market area in which comparable properties will be found are located. Market area is formally
175 defined as “the geographic or location delineation of the market for a specific category of real
176 estate, i.e., the area in which alternative, similar properties effectively compete with the subject
177 property in the minds of probable, potential purchasers and users. In contrast, a neighborhood is
178 defined more generally as ‘a group of complementary land uses.’”¹³ In other words, the
179 neighborhood boundaries in which the subject property is located may contain residential
180 properties as well as non-residential properties that serve the residents of the neighborhood,
181 whereas the boundaries of the market area for the subject property is based on the area in which
182 similar properties compete with one another. In some cases, the subject property’s neighborhood
183 and market area may have the same boundaries, but in other cases the market area may contain
184 several neighborhoods or portions of different neighborhoods. A market area is defined by the
185 type of property, the type of transaction (rental or sale), the geographic area in which
186 competition exists, and the homogeneity of properties within its boundaries.¹⁴

187 The geographic area used for selecting comparable properties depends on the property type. For
188 a large industrial property, regional or national market areas may be relevant since this is the
189 “market” in which buyers of similar properties effectively compete. For a (non-complex)
190 residential property, adequate sales data may be available within a few blocks of the subject
191 property.¹⁵ Neighborhoods tend to define the primary market area for most non-complex
192 residential properties since homes in the area immediately surrounding a property tend to attract
193 like-minded buyers. However, it is recognized that competitive neighborhoods within a larger

¹¹ *Real Estate Valuation in Litigation*, 2nd Edition, p. 207.

¹² *Appraising Residential Properties*, 4th Ed., p 36, 78, and 198.

¹³ *Ibid.*

¹⁴ *Ibid.*

¹⁵ *The Appraisal of Real Estate*, 13th Edition, pp. 168-169

194 market area might need to be considered. Care should be taken to analyze and align the specific
195 neighborhood characteristics to ensure they are truly competitive.

196 *How a market area and neighborhood may be the same or differ:* “A subdivision comprised of
197 tract housing of similar general design and covering ten square blocks may be a ‘neighborhood’
198 and the ‘market area’ if there are no other similar developments nearby. However, a ‘market
199 area’ may also encompass other subdivisions that are suitable alternatives and draw from the
200 same buyer pool as the subject, even if they are across town. The buyer pool ultimately defines
201 the market area; if buyers consider the neighborhoods to have similar appeal, then it is likely the
202 neighborhoods are suitable competition and could be considered within the same market area.

203 Non-residential properties may have demand drivers from diverse locations. Thus, delineating
204 the market areas for these uses usually starts with identifying the competitive cluster of buildings
205 that compete for some of this diverse market of users.”¹⁶

206 “The term *market area* may be more relevant to the valuation process than either *neighborhood*
207 or *district* for several reasons:

- 208 - Using the umbrella term *market area* avoids the confusing and possibly negative
209 implications of the other terms.
- 210 - A market area can include neighborhoods, districts, and combinations of both.
- 211 - Appraisers focus on market area when analyzing value influences. A market area is
212 defined in terms of the market for a specific category of real estate and thus is the area in
213 which alternative, similar properties effectively compete with the subject property in the
214 minds of probable, potential purchasers and users.”¹⁷

215 Delineating precise market area boundaries is challenging because markets may overlap and it
216 may be difficult to decide how narrowly or broadly to define a market area. Therefore, this
217 section is intended to assist in identifying potential market characteristics for identifying a
218 market area, but not to present the techniques for delineating and segmenting a market area.

219 *Market characteristics that delineate a market area:* “The market area for the buyer/seller
220 market is usually different from the market area for the user market. The market area for the
221 buyer/seller market could be international, say, for a hotel, while the user market for the hotel
222 could be within the country. Thus, market delineation for valuation has two main parts:

- 223 1. Analysis of the user market (owners, occupants, and the competition)
- 224 2. Analysis of the buyer/seller market.”¹⁸

225 “The user market is identified before the buy/sell market is determined because the user market
226 sets the basis of highest and best use, which in turn sets the parameters of the substitute property
227 comparables identified in the buy/sell market.”¹⁹

¹⁶ Fanning, Steven F., *Market Analysis for Real Estate: Concepts and Applications in Valuation and Highest and Best Use*, Appraisal Institute, Chicago, 2005.

¹⁷ *The Appraisal of Real Estate*, 13th Ed., p. 55.

¹⁸ *Ibid*, p.174.

¹⁹ Fanning, Steven F., *Market Analysis for Real Estate: Concepts and Applications in Valuation and Highest and Best Use*, Appraisal Institute, Chicago, 2005.

228 Possible demographic, socio-economic, lifestyle, geographic, and economic characteristics to
229 consider in segmenting markets is listed below (*not an exhaustive list and not in any specified*
230 *order*):

- 231 • the type of structures and architectural style
- 232 • current land use
- 233 • typical site size
- 234 • tenure and vacancy rates
- 235 • income levels (average/median incomes/range of incomes)
- 236 • geographic characteristics (climate, natural resources, natural recreational opportunities,
237 etc)
- 238 • population trends and rate of growth
- 239 • median prices and price range distribution
- 240 • economy (jobs, industries, diversification, growth, tax district, etc.)
- 241 • cultural and entertainment opportunities
- 242 • educational resources available (including school districts)
- 243 • infrastructure
- 244 • affordability
- 245 • availability of necessary services (hospitals, public transportation, utilities, etc)
- 246 • exposure to nearby properties (secluded or densely improved)
- 247 • absorption rates, demand, and market times
- 248 • condition and quality of residential and/or non-residential properties
- 249 • sustainability (green) features or characteristics
- 250 • rental rates
- 251 • historical renovations or newly built housing/non-residential properties
- 252 • typical building or housing size
- 253 • demographic components (family mix, age, purchasing power, etc.)

254 The segmenting of a market should take into consideration these or similar applicable data
255 categories that are considered most relevant for the property type and use. Demographic, socio-
256 economic, consumer behavior, economic, and lifestyle data can be retrieved or purchased
257 through several available private and public resources, both locally and nationally.

258 V. Summary

- 259 • The identification of what constitutes a similar, or “comparable property” is critical to the
260 proper application of the three approaches to value.

- 261 • The appraiser identifies the comparability of the property by determining whether it is a
262 competitive substitute for the subject property. The quantity and/or magnitude of the
263 adjustments do not dictate comparability.
- 264 • The appraiser has to adequately explain and support the rationale for using the
265 comparable properties selected in the appraisal report. Such narrative assists in
266 demonstrating the reliability and credibility of the opinion of value. Where the
267 comparable properties possess significant differences from the subject property,
268 additional comparable properties may be included for additional support of the opinion of
269 value.
- 270 • The appraiser cannot control the quality or suitability of the activity available in the
271 market during the timeframe of analysis. Information could be limited in many markets,
272 and many properties do not lend themselves to simplified comparison. In such cases,
273 analysis of older transactions may also be required due to limited current activity in the
274 market; however, such data should be cautiously considered. It is necessary for the
275 appraiser to clearly express these limitations and to reconcile the reliability of the sales
276 where a substantial number of the elements are sufficiently different.
- 277 • If the subject property has a significant element of comparison that competing properties
278 lack or conversely, if the subject property lacks a significant element of comparison that
279 competing properties possess, explanation is necessary. In such situations, generally
280 recognized appraisal methodology would dictate an effort to use comparable properties
281 that are both superior and inferior to the subject for that specific element of comparison
282 (this process is often referred to as “bracketing”). Comparing properties with superior,
283 similar, and inferior elements of comparison to the subject property may assist in
284 validating the adjustments applied.
- 285 • A necessary consideration for determining if a property is comparable is whether the
286 highest and best use of the subject property and the competing property is the same.
287 Likewise, an appraiser should consider a change in the current use of a property by
288 reference to the uses for which the property is suitable, or such as may be reasonably
289 expected in the immediate future. These factors can be applied to both the subject
290 property and the selection of comparable properties.
- 291 • Location is a primary consideration in the comparable property selection process.
292 Ideally, a comparable property would compete with the subject property in location as
293 well as other characteristics. When considering a comparable property’s location
294 competitiveness to the subject property, the subject property’s local market performance
295 and characteristics are measured alongside the comparable property’s local market.
296 Preferably, the comparable property is located in the subject property’s market area.

297 **VI. Glossary of Terms and Definitions**

298 ***Bracketing***

299 “A process in which an appraiser determines a probable range of values for a property by
300 applying comparative analysis techniques to data such as a group of sales. The array of
301 comparable sales may be divided into three groups – those superior to the subject, those similar
302 to the subject and those inferior to the subject. The sale price reflected by the sales requiring
303 downward adjustments and those requiring upward adjustment refine the probable range of
304 values for the subject and identify a value range (i.e., a bracket) in which the final value opinion

305 will fall.” Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 5th ed. (Chicago:
306 Appraisal Institute, 2010),

307 ***Comparable Property***

308 “. . . properties that are similar to the property being appraised.” *The Appraisal of Real Estate*,
309 13th Ed., p. 168.

310 ***or***

311 A comparable property is a “property that has been the subject of a recent transaction and is
312 sufficiently similar that it can be used to measure the value of another property. A comparable
313 property should be the subject of a recent arms’-length transaction and ideally should be similar
314 in location; age and design; construction and condition; and size and layout to the subject
315 property, i.e. what is or has been available in a similar market. In practice, an ideal comparable
316 property hardly ever exists; instead a valuer or appraiser extrapolates information on values from
317 similar properties, makes adjustments and allowances, and uses his judgment to apply the
318 resultant figure to the property he is seeking to value.” Damien Abbott, *Encyclopedia of Real
319 Estate Terms: based on American and English Practice, with terms from the Commonwealth as
320 well as the civil law, Scots law and French law*, 2nd Ed., Delta Alpha Publishing, 2000, p. 200.

321 ***Comparable Property (Rental)***

322 “A property that is representative of the rental housing choices of the subject's primary market
323 area and that is similar in construction, size, amenities, location, and/or age. Comparable and
324 competitive properties are generally used to derive market rent and to evaluate the subject's
325 position in the market.” National Housing and Rehabilitation Association (2012), NH & RA’s
326 Housing Online.

327 ***Competitive Property (Competition)***

328 “. . . among competitive properties, the level of productivity and amenities or benefits
329 characteristic of each property considering the advantageous or disadvantageous position of the
330 property relative to the competitors.” *The Appraisal of Real Estate*, 13th Ed., p. 38.

331 ***Competitive Property (Rental)***

332 “A property that is comparable to the subject and that competes at nearly the same rent levels
333 and tenant profile, such as age, family or income.” National Housing and Rehabilitation
334 Association (2012), NH & RA’s Housing Online. Retrieved from <http://www.housingonline.com>
335 and <http://www.bowennational.com/terminology.php> on 08/26/2012.

336 ***District***

337 “A type of market area characterized by homogenous land use, e.g., apartment, commercial,
338 industrial, agricultural. *The Appraisal of Real Estate*, 13th Ed., p. 55.

339 ***Highest and Best Use***

340 “The reasonably probable and legal use of vacant land or an improved property that is physically
341 possible, appropriately supported, and financially feasible and that results in the highest value.”
342 *The Appraisal of Real Estate*, 13th Ed., pp. 277-278.

343 ***Market Area***

344 “The geographic region from which a majority of demand and the majority of competition are
345 drawn” Adrienne Schmitz and Deborah L. Brett, *Real Estate Market Analysis: A Case Study*
346 *Approach*, Washington, D.C., Urban Land Institute, 2001.

347 ***or***

348 “The geographic or locational delineation of the market for a specific category of real estate, i.e.,
349 the area in which alternative, similar properties effectively compete with the subject property in
350 the minds of probable, potential purchasers and users.” *The Appraisal of Real Estate*, 13th Ed., p.
351 55.

352 ***Neighborhood***

353 “A group of complementary land uses; a congruous grouping of inhabitants, buildings, or
354 business enterprises.” *The Appraisal of Real Estate*, 13th Ed., p. 55.

355 ***Principle of Substitution***

356 “The principle of substitution states that when several similar or commensurate commodities,
357 goods, or services are available, the one with the lowest price attracts the greatest demand and
358 widest distribution. This principal assumes rational, prudent market behavior with no undue cost
359 due to delay. According to the principal of substitution, a buyer will not pay more for one
360 property than for another that is equally desirable.” *The Appraisal of Real Estate*, 13th Ed., pp.
361 38-39.

APPENDIX I: Examples of Physical Comparability Factors

Examples of Physical Comparability Factors	
Major Asset Class	Comparability Factors
Residential Homes	Home Size; Lot Size; Bedrooms/Baths; View, Amenities, Water-frontage, Garage; Basement, Architectural Style, Construction Quality\Finishes, Age, Type (Attached, Condo, Townhome, Detached), Special Features
Office	Owner v. Tenant Occupied; Single/Multi-Tenant; Medical/Professional; Ownership Type (Condo, Fee, etc.); Date of Construction; Mechanical; Architectural Style/Age; Construction Quality; Amenities, Tenancy Mix; Functionality; Floorplate Size; Land Size; Parking Suitability for Use
Retail	Single/Multi-Tenant; Class of Retail (Grocery Anchor, Neighborhood Strip, etc.); Tenant Quality; Tenant Tenure, Visibility, Proximity to Residential, Parking Suitability; Age, Construction Quality, Amenities, Support Uses driving demand for retail use, Floorplan/Layout, Land Size, Signage
Industrial	Single/Multi-Tenant, Tenant Profile, Suitability to meet industrial user demand, ceiling heights, dock and loading door sufficiency, power sufficiency Proximity to industrial demand generators, age, construction quality, land size, parking and loading circulation, floor loads, access to water/rail
Apartments	Unit Mix, Average Unit Size, Utility Metering and costs, proximity to demand drivers for rental demand, access and visibility, amenities Age; Architectural Style, Construction Quality, Tenant Mix, Rent Control, Parking, Storage, On-Site Amenities
Agricultural	Site Size, Topography, Soil Suitability, Crop Yield, Irrigation/Water Availability, Utility Availability, Age of farm buildings, Environmental regulations, Availability of subsidies, Plottage, Access to Storage, Farm House Divisible, Proximity to applicable markets

362 *Note:* Each class of property may have differing drivers which require further analysis; and there
363 are segmentations amongst each of the above classes of property.

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