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A New Frontier: Appraising in a World of Change

The Price Is Right?

Calculating Credible Adjustments Using the Cost Approach



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What are we going to discuss?

- **Cost Approach Overview**
- **Different Cost Methods**
- **Calculating Adjustments**
- **Case Study**





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What is the Cost Approach?





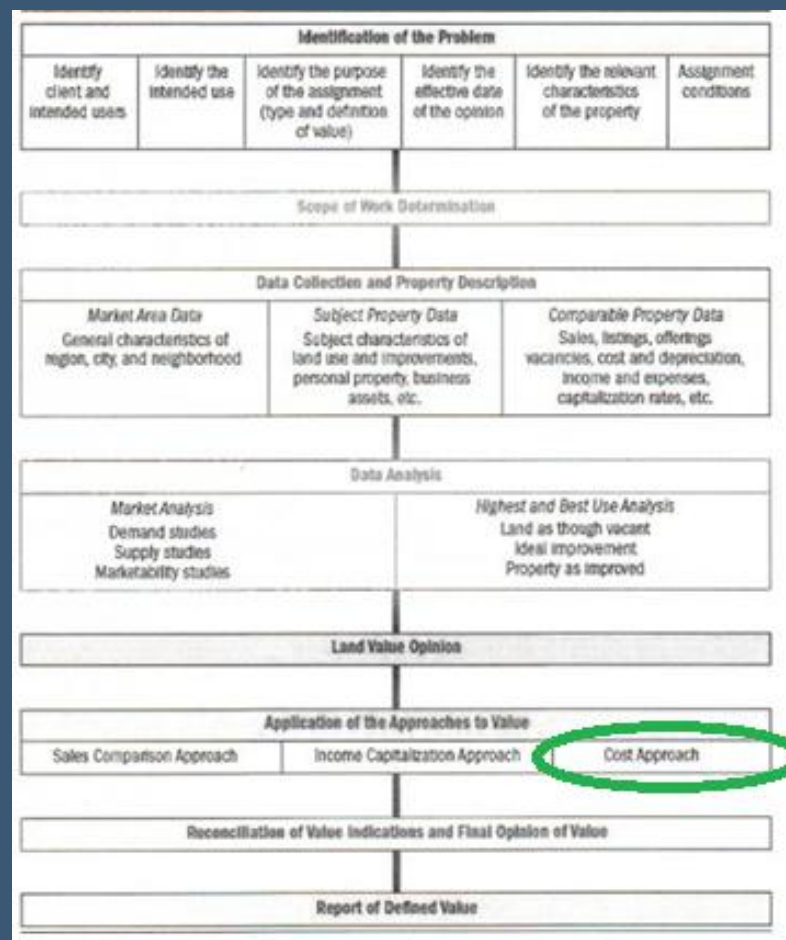
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The Appraisal Process Flowchart





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Cost Approach Pros

- Easy to understand
- Great for new construction valuation
- Reliable for special use properties
- Transparent for partitioning of land & hard and soft costs.
- Detection of market anomalies
- Useful for determining adjustments



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Cost Approach Cons

- Not so good for valuing old properties
- Ignores Market Conditions
- Disregards Future Income Potential
- Depreciation Calculation Difficulties
- Doesn't well with market volatility



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Definition: *Cost*

“The total expenditure to develop an improvement”



As The Dictionary of Real Estate
Appraisal 8th Edition



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Definition: *Price*

The amount a particular purchaser agrees (or has agreed) to pay and a particular seller agrees (or has agreed to pay to accept under the circumstances surrounding their transaction.”



AI TARE, 16th Edition



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Definition: *Value*

The most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably and for self-interest, and assuming that neither is under undue duress.”

AI TARE, 16th Edition





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Cost Approach Overview





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Cost Approach Overview

Core Idea:

Value = Site + Contributory value of improvements

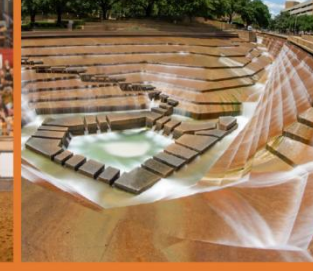




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Cost Methods

- **Comparative-Unit Method**
- **Unit-In-Place Method**
- **Quantity Survey Method**



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Depreciation Methods

- **Market Extraction**
- **Economic age-life**
- **Breakdown**



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What's cost got to do with adjustments??





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Cost Adjustments – Case Study #1





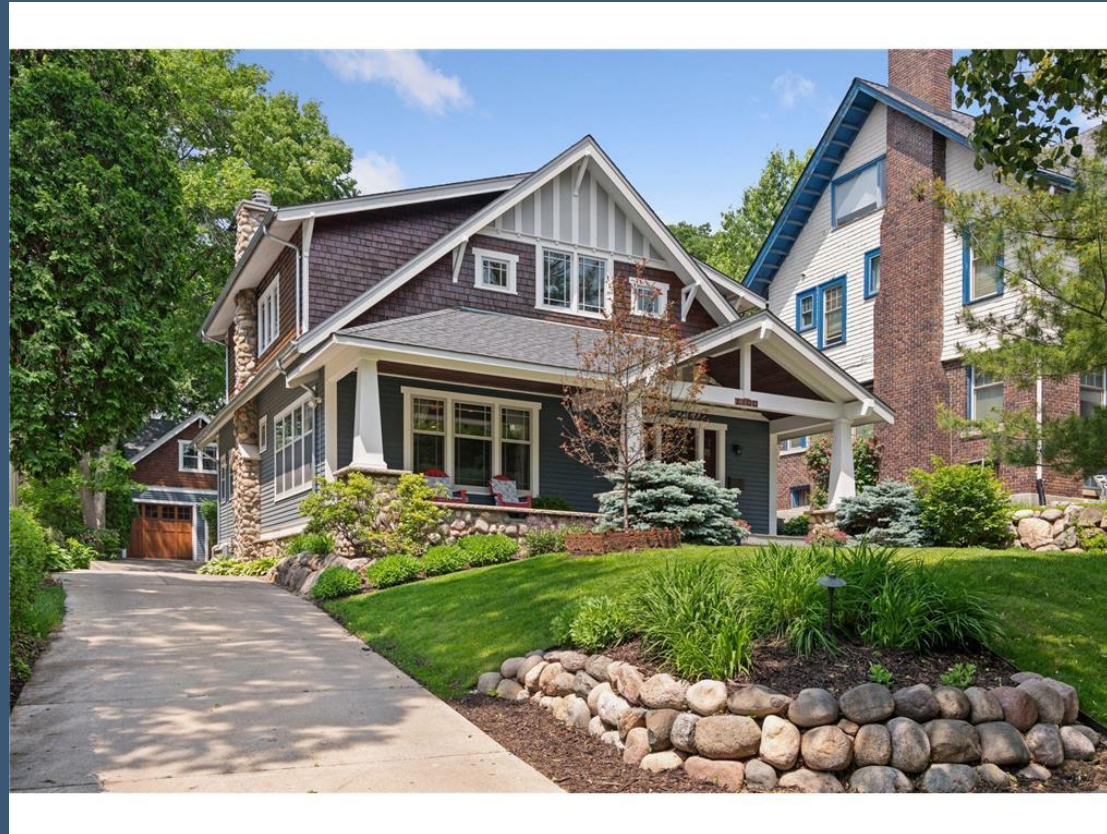
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Cost Adjustments – Case Study #1





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Cost Adjustments – Case Study #1

- **Porch**
- **Patio**
- **Fireplace**
- **Garage Stalls**



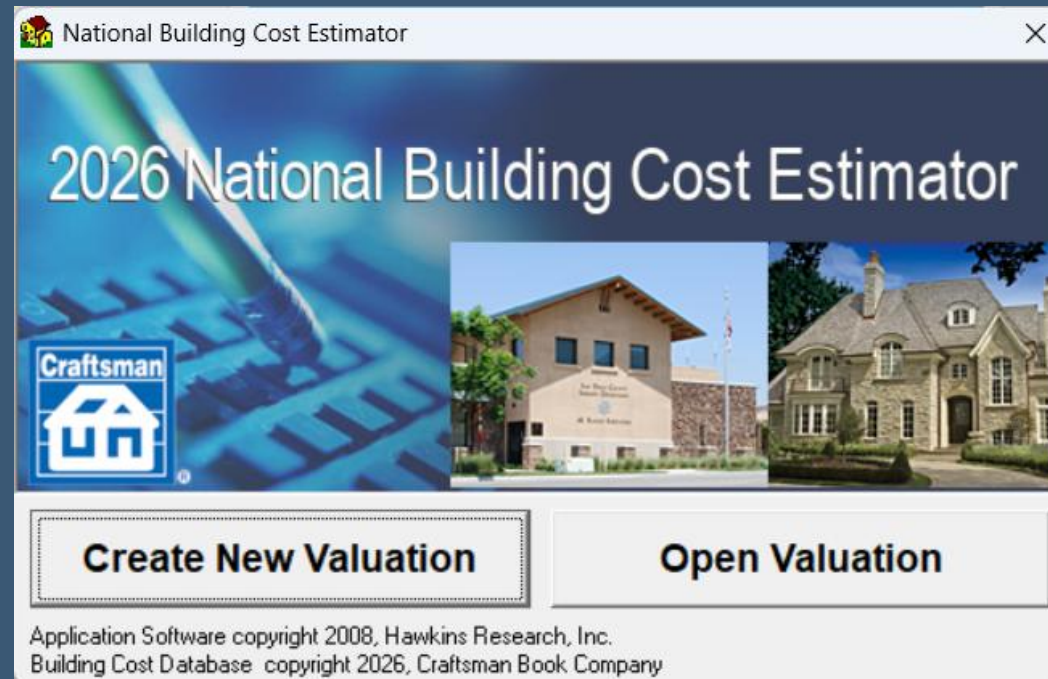
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Cost Adjustments – Case Study #1



<https://craftsman-book.com/books-and-software>



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Cost Adjustments – Case Study #1

..pvd - Single Family Residence - National Building Cost Estimator

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General Information

Please fill in all appropriate values. The lines in blue must be completed before the valuation can be calculated.

Required Values

Select building shape: 6 Corners (or Two Building Masses)

Enter the area in square feet (not including: attics, basements or garages): 2556

Select exterior wall type: Frame

Optional Values

Enter a Name for this Valuation: Estate

Enter an Address: Mpls, MN

Enter a Date for this Valuation: 7/12/2025

Estimated Site Value: 455000

Enter year built: 1938

⚡ = Required fields not completed

Total Area: 3344 S.F. RC Per SF: \$233.44 RC: \$780,629.64 DEP: \$140,513.34 ACV: \$640,116.30



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Cost Adjustments – Case Study #1

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Report

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Balcony & Basement
Garages & Carports
Uncovered Concrete Decks
Uncovered Wood Decks
Porches (Under Main Roof)
Porches (Not Under Main Roof)
Heating and Cooling Types
Unit Heating and Cooling
Unit Heating and Cooling 2
Appliances
Fireplaces
Depreciation
Report

Preview Report Print Report Create PDF Email Report

⚡ = Required fields not completed

Total Area: 3344 S.F. RC Per SF: \$233.44 RC: \$780,629.64 DEP: \$140,513.34 ACV: \$640,116.30



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Cost Adjustments – Case Study #1

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🏠 Garages & Carports

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🏠 Uncovered Wood Decks

🏠 Porches (Under Main Roof)

🏠 Porches (Not Under Main Roof)

🏠 Heating and Cooling Types

🏠 Unit Heating and Cooling

🏠 Unit Heating and Cooling 2

🏠 Appliances

🏠 Fireplaces

🏠 Depreciation

🏠 Report

🏠 = Required fields not completed

Depreciation

To calculate building depreciation, enter the age of the building in years and press (Suggest Percentage).

Percent Depreciation

Enter age of building

88

Suggest Percentage

Total Depreciation

18 %

Total Area:

3344 S.F.

RC Per SF:

\$233.44

RC:

\$780,629.64

DEP:

\$140,513.34

ACV:

\$640,116.30



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Covered Porches (Under Main Roof)

Enter the area Sq. Feet

Choose Type

- ☒ None
- ☐ Ground level floor (usually Concrete) without banister, with no ceiling and shed-type roof.
- ☐ High (house floor level) floor (concrete or wood) with light banister, no ceiling and shed type roof.
- ☐ Same as above with a finished ceiling like the residence (most typical).
- ☐ Same as above but partially enclosed with screen or glass.
- ☐ Enclosed lean-to (sleeping porch, etc.) with lighter foundation, wall structure, interior finish or roof than the house to which it was attached.
- ☐ Roofed, enclosed, recessed porch, under the same roof as the main building and with the same type and quality foundation (includes shape costs).
- ☐ Roofed, enclosed, recessed porch, with the same type of foundation and roof as the main building (includes shape costs).
- ☐ Good arbor or pergola with floor.

= Required fields not completed

Total Area: RC Per SF: RC: DEP: ACV:



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- ☐ Same as above with a finished ceiling like the residence (most typical).
- ☐ Same as above but partially enclosed with screen or glass.
- ☐ Enclosed lean-to (sleeping porch, etc.) with lighter foundation, wall structure, interior finish or roof than the house to which it was attached.
- ☐ Roofed, enclosed, recessed porch, under the same roof as the main building and with the same type and quality foundation (includes shape costs).
- ☐ Roofed, enclosed, recessed porch, with the same type of foundation and roof as the main building (includes shape costs).
- ☐ Good arbor or pergola with floor.

= Required fields not completed

Total Area: RC Per SF: RC: DEP: ACV:



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Cost Adjustments – Case Study #1

- **\$650,900.53 with a porch**
- **\$634,724.25 without a porch**



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Cost Adjustments – Case Study #1

- **\$650,900.53 - \$634,724.25**
- **\$16,176.28 - Difference**
- **\$16,200 – Porch adjustment**



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Uncovered Decks

Concrete Deck

Enter the Area Sq. Feet

Select the Classification

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Concrete Deck

Enter the Area Sq. Feet

Select the Classification

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Cost Adjustments – Case Study #1

- **\$638,830.71 - \$636,746.89**
- **\$2,083.82 - Difference**
- **\$2,100 – Patio adjustment**



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Fireplaces

	1 Story	2 Story
Free standing wood burning heat circulating prefab metal fireplace with interior flue, base, and cap.	0 Units	0 Units
Zero-clearance insulated prefab metal fireplace, brick face	0 Units	0 Units
5' base common brick on interior face	0 Units	0 Units
6' base common brick, used brick or natural stone on interior face	0 Units	0 Units
8' base used brick or natural stone on interior face, raised hearth	0 Units	0 Units

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Total Area: RC Per SF: RC: DEP: ACV:



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Fireplaces

	1 Story	2 Story
Free standing wood burning heat circulating prefab metal fireplace with interior flue, base, and cap.	0 Units	0 Units
Zero-clearance insulated prefab metal fireplace, brick face	0 Units	0 Units
5' base common brick on interior face	0 Units	0 Units
6' base common brick, used brick or natural stone on interior face	1 Units	0 Units
8' base used brick or natural stone on interior face, raised hearth	0 Units	0 Units

= Required fields not completed

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Cost Adjustments – Case Study #1

- \$629,179.14 - \$618,241.98
- \$10,937.16 - Difference
- \$10,900 – Fireplace adjustment





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Cost Adjustments – Case Study #1





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Cost Adjustments – Case Study #1

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Garages and Carports

Type and Finish

Garage under the main building roof. (Garage walls are in vertical alignment with second floor walls.) Interior finish similar to the remainder of the building. Sq. Feet

Attached garage. (Shares at least one common wall with the main structure and is under a roof that connects to the roof of the main building.) No interior finish. Sq. Feet Attached Classification

Attached garage. Has interior finish. Sq. Feet

Detached garage. (Does not share any common walls with the main building.) No interior finish. Sq. Feet Detached Classification

Detached garage. Has interior finish. Sq. Feet

Carports, including asphalt floor. Sq. Feet

= Required fields not completed

Total Area: RC Per SF: RC: DEP: ACV:



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Cost Adjustments – Case Study #1

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Detached garage. Has interior finish. Sq. Feet

Carports, including asphalt floor. Sq. Feet

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Total Area: RC Per SF: RC: DEP: ACV:



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Cost Adjustments – Case Study #1

- **\$630,950.34 - \$616,922.60**
- **\$14,027.74 - Difference**
- **\$14,000 – Garage adjustment**





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Cost Adjustments – Case Study #1





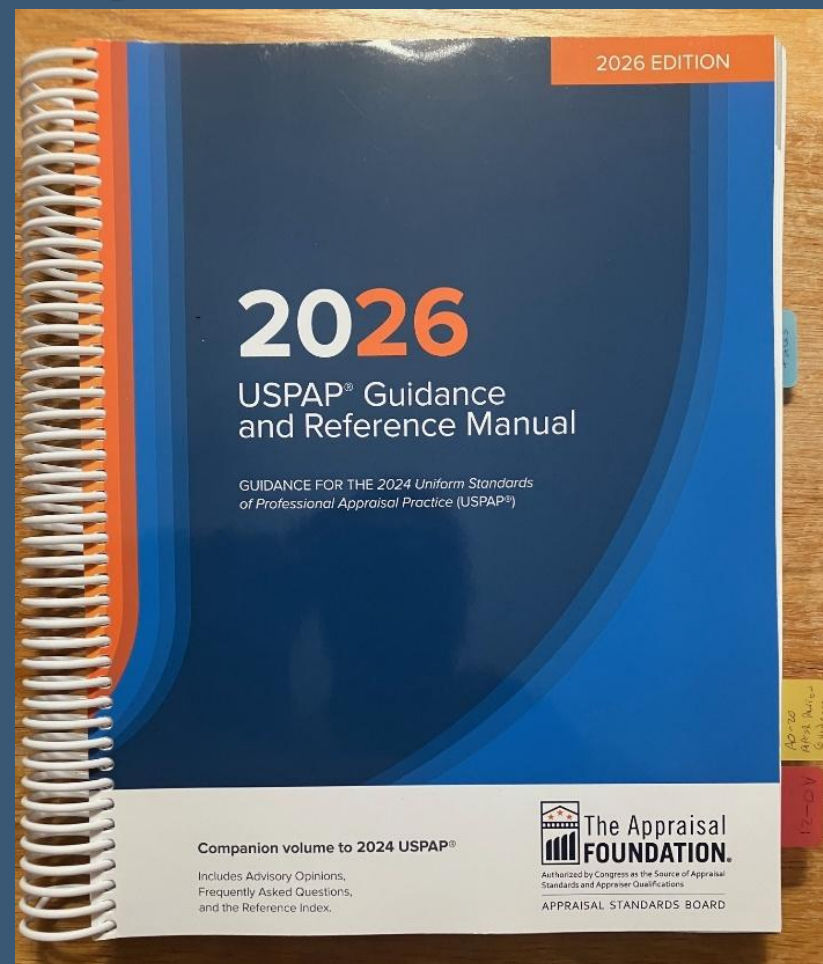
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Cost Adjustments – Validation

SUPPORT



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Questions?





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