Valuation Methodologies utilized in establishing fair market value

**Sales Comparison/Market Approach** – This method estimates the property’s value by reference to comparable sales. The four main steps are: (1) collecting and analyzing the property data, (2) selecting appropriate units of comparison, (3) making reasonable adjustments based on market data, (4) applying the data to the subject property.

**Cost Approach** – This method seeks to determine the replacement cost new of an improvement less depreciation plus the land value. This method estimates the value of the property by estimating the cost of construction based on replacement or reproduction cost new or trended historical cost. Depreciation is then subtracted. The land value is then added to the improvement value.

**Income Approach** – Using Direct Capitalization which is the process of converting income to value in the income approach by dividing a current income figure by a market derived overall rate (OAR). The five main steps are: (1) estimate the gross income of the property from market data, (2) estimate the operating expenses from market data, (3) estimate the net income, (4) selection of appropriate capitalization rate, (5) compute the value by capitalization. This approach works off the concept that the net income divided by the capitalization rate will equal the property’s value.


Mass Appraisal of Real Property, International Association of Assessing Officers, 1999