

Dear Real Estate Professional,

It's no secret that California real estate prices are off the charts. In the past decade, prices have gone through the roof, and there's no apparent end in sight. Unless, of course, supply finally catches up with demand.

So far, California's unique web of restrictions, regulatory hurdles and the highest building fees in the country have prevented massive construction projects and severely limited the state's ability to keep up with the insatiable demand for Golden State property.

This has created a unique appraisal climate where the cost approach is increasingly important as both an independent valuation method and as a way to verify market appraisals.

Problems With the Market Approach

California's real estate market presents unique challenges to the basic market approach concept.

The market approach supposes that the value of a property is best measured by what similar properties in similar environments have sold for, all differences accounted for. Obviously, prices can not exceed what buyers are willing to spend, but in times of housing shortages and increasing demand, as is the case in many California markets, it becomes difficult to gauge what a reasonable price is.

Can you tell what a reasonable price is anymore?

Cost Approach as Quality Control

The cost approach has always served a crucial quality control function. Historically, it has been used to verify market-based estimates and to help identify a potential runaway or rapidly declining market.

Economies across the globe have witnessed time and time again that markets without reality checks are capable of generating obscene transaction values, resulting in dangerous bubble scenarios. Amid fears of the California housing bubble bursting, you would do well to incorporate the cost approach to keep your appraisals in check.

Cost Approach as an Independent Valuation Method

The cost approach is the most reliable valuation method for a variety of assignments. It is particularly useful when lack of market activity limits the effectiveness of the market approach, when land value is well supported, when improvements represent the highest and best use of land, and for special-purpose or high-value properties not frequently exchanged on the market.

It is an excellent way to adjust estimates to account for unique property features and is

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extremely useful in determining depreciation values for physical deterioration or functional or external obsolescence, as applied to the market approach.

The cost approach is integral to any successful appraisal operation. It is your responsibility to ensure that your appraisals accurately represent the subject property. We are here to help.

What Marshall & Swift Can do for You

Widely recognized as the authority on the cost approach, Marshall & Swift is the appraisal industry's leading provider of building cost data, and has set the standard for cost approach methodology since 1932 when E.P. Marshall's first cost manual rolled off the press.

Today, we offer our acclaimed cost data in various mediums, including traditional cost manuals in both print and .pdf formats, desktop calculation software and online applications.

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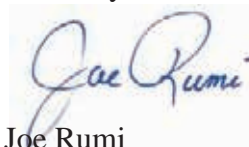
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