



Course 112 – Income Approach to Valuation

Course Description

IAAO Course 112 - Income Approach to Valuation II is an intermediate level program designed for the practicing appraiser. It builds on the training of IAAO Course 102. An understanding of the income approach to value and practical experience with income capitalization are essential prerequisites. Problem solving requires a calculator with a power key.

This course makes extensive use of financial compounding and discounting techniques. Emphasis is on developing financial factors by way of electronic devices with only slight references to preprinted tables. Forecasting income patterns and property value changes are prominent variables used in estimating present values. Formula driven models are the primary appraisal tool versus look up tables and vertical calculations. Market value estimates through yield capitalization are the principal focus of the course.

The five chapters are a combination of lecture aided in outline form, example Practical Applications, student Exercises and Review Questions. PowerPoint slides assist in conveying the material. Case studies are included to help the student relate the problems to real life situations. Two quizzes help the students measure their progress. All exercises include suggested solutions

Objectives

Upon completion of Chapter 1, you will become familiar with the following skills:

- The steps in the appraisal process and where within that process the income approach is found
- The requirements necessary for defining the valuation problem
- Determining the scope of work with emphasis on the income approach segment
- The four tests required for highest and best use analysis
- Classifying types of value
- Review of the fundamentals of the income approach
- Recognizing similarities and differences between Direct and Yield capitalization

After conclusion of Chapter 2 you will become familiar with the following skills:

- Understand the composition of a real property investment
- Identify investor motivations and expectations
- Understand the basics of financial investment property
- Recognize positive, negative & neutral financial leveraging
- Understanding compound interest and its calculations
- Recognize the time value of money

After conclusion of Chapter 3 you will become familiar with the following skills:

- Dealing with transactional variances, sales concessions and financing concessions
- Identify the primary investment measurements over the investment period
- Understand the symbols used in the income approach
- Distinguish holding period from projection period
- Developing multiyear gross and net income forecasts
- Identify income patterns
- Solving annuity valuation with income models

After conclusion of Chapter 4 you will be introduced to the following:

- How the income approach evolved
- Identify direct capitalization techniques
- Identify the required components of yield capitalization
- How to calculate effective tax rates
- How to account for property taxes in yield capitalization
- How to develop yield capitalization property models
- How to develop and use income stabilizers
- How to convert variable income to a stabilized equivalent

After conclusion of Chapter 5 you will have been introduced to the following skills:

- How to extract yield rates from sales
- How to calculate the internal rate of return
- How to read and use investor surveys
- How a safe rate is used in capitalization
- Understand and develop the mortgage equity technique
- Relate subdivision analysis to yield capitalization
- The use of traditional discounted cash flow analysis with ad valorem tax appraisal

Timetable

Topic	Time Requirement	Day Covered
Chapter 1		
Introduction	15 Minutes	Monday AM
Review of the Appraisal Process	75 Minutes	Monday AM
Types of Value	15 Minutes	Monday AM
Review of the Income Approach	45 Minutes	Monday AM
Review Questions	30 Minutes	Monday AM
Chapter 2		
Investment Criteria & Investors Motivations	60 Minutes	Monday AM/PM
Financing and Investment Leverage	60 Minutes	Monday PM
Compound Interest and Discounting	240 Minutes	Monday PM/Tuesday AM
Review Questions	30 Minutes	Tuesday AM

Topic	Time Requirement	Day Covered
Chapter 3		
Adjusting Prices for Variances & Concessions	120 Minutes	Tuesday AM/PM
Specifying the Investment Period	30 Minutes	Tuesday PM
Gross Income Development	120 Minutes	Tuesday PM
Net Income Development	150 Minutes	Tuesday PM/Wednesday AM
Review Questions	30 Minutes	Wednesday AM
Quiz #1	30 Minutes	Wednesday AM
Chapter 4		
Characteristics of Yield Capitalization	30 Minutes	Wednesday AM
Property Taxes and Income Capitalization	120 Minutes	Wednesday AM/PM
Yield Capitalization Formulas	360 Minutes	Wednesday PM/Thursday AM
Review Questions	30 Minutes	Thursday AM/PM
Chapter 5		
Extracting Yield Rates from the Market	60 Minutes	Thursday PM
Hoskold Split Rate Premise	30 Minutes	Thursday PM
Mortgage Equity Analysis	45 Minutes	Thursday PM
DCF – Land Development Technique	15 Minutes	Thursday PM
Traditional Discounted Cash Flow Analysis	15 Minutes	Thursday PM
Review Questions	15 Minutes	Thursday PM
Quiz #2	30 Minutes	Thursday PM