

Identifying and Evaluating External and Functional Obsolescence: A 2-Hour Continuing Education Class

Course Objective: The objective of this course is to review those factors that create external and functional obsolescence as applicable to single-family residential valuations. The class will be broken down into three components.

The first component will be a general discussion of obsolescence and depreciation. Physical deterioration will be touched upon to distinguish it from external and functional factors. Land value concepts will also be discussed to assist the attendees in understanding that while land value may change, it does not depreciate as do improvements.

The second component will be focused on identifying the causes of external and functional depreciation. Emphasis will be placed on the importance of describing these influences in the report so that the client/intended user will understand to what extent they impact the valuation. The third component will be examples of how to evaluate the impact on value of external and functional obsolescence in the appraisal report.

1. Obsolescence & Depreciation

- Obsolescence: A factor that creates a loss in value
- Depreciation: The result of obsolescence; the amount (\$) of value that is lost
- Obsolescence and depreciation are relevant to the improvements
- Land value, while subject to change, does not “depreciate” in the same manner as improvements
- Curable vs. Incurable
- The impact of external and functional obsolescence on remaining economic life

2. Identification of External and Functional Obsolescence

External: Location Factors

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 - Busy streets: is the impact the same in an urban vs. suburban market?
 - Overhead High-Voltage Power Lines
 - Non-residential uses surrounding a residential use
- External: Economic Factors
 - Feasibility of Development
 - Economic Obsolescence: Typically not curable but usually temporary

Functional:

- A Deficiency: The improvement doesn't have what the market expects
- A Superadequacy: The improvement has more than the market wants (or is willing to pay for)
- Curing: Fix it, replace it, or do nothing (i.e., "incurable")?
- What is functionally obsolete in my market may not be obsolete in your market

3. Case Studies

- Case studies will be included to demonstrate different techniques for addressing external and functional obsolescence