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Appraisal Insights for the Real Estate Professional



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The Importance of the Neighborhood Analysis

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When appraising property, the subject's neighborhood analysis is very important because it provides background for valuation. There are many influences within a neighborhood that can have an effect on value.

The primary objective of the neighborhood analysis is to identify the geographical area which possesses the same influences as the subject. The appraiser must pay close attention to two factors when analyzing a neighborhood: describing the area and the properties it contains and understanding its growth pattern.

Understanding neighborhood boundaries plays a crucial role in defining the market. Various factors such as educational facilities, public transportation, shopping and other recreational facilities may influence sudden changes in value from one neighborhood to the next.

Providence, RI, where I frequently appraise, is a large multi-family market where values can change from block to block. A major factor is the location of post-secondary educational facilities within the Providence area. In analyzing the Providence market, it is important to understand what influence the particular college or university has on the market. Enrollment has a direct effect on the potential rental income. The closer a property is to a college or university, the higher the rent, due to a greater demand than supply. Therefore, a 3 block radius can change in value up to 2-3%.

The appraiser must research the life cycle of the market. The life cycle has four stages: growth, stability, decline and renewal. Research is done through interviews, observation and published information. The physical, economical and social forces of government also impact the life cycle of a neighborhood.

Reconciliation and review of all data obtained should be explained as it pertains to the final estimation of value.

Frequently Asked Questions

Q: What is a neighborhood?

A: A neighborhood can be defined as an area characterized by complementary land uses. It may be as large as an entire community or as small as a one or two block area.

If you have a question you'd like to ask, please email ForsytheInfo@ForsytheAppraisals.com

Mortgage Rates **As of February 3**

30 Year Fixed: **5.63%**

15 Year Fixed: **5.14%**

1- year ARM: **4.23%**

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