# CHAPTER IV

# CLASSIFICATION AND DEPRECIATION

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## CHAPTER INDEX

## CLASSIFICATION

In classifying buildings; there are three items to look for:

1. Quality of Design

2. Quality of Materials Used

3. Quality of Workmanship

The degree of quality in design, materials, and workmanship found in a residential or commercial building indicates the difference between each classification. Learning to properly class structures requires at least a basic knowledge of construction -- what is good, or what is bad. It requires knowledge of what materials, when assembled into the various parts of a structure, form expensive or inexpensive construction. It requires the ability to recognize the difference between good and bad workmanship.

Our system of classification employs six regular classes plus one special class. Each class can be further adjusted by using plus (+) and minus (-) indications, for example, class "C+" or class "D-." The classes are given letter designations starting with "A" and ending with "F" ("A" being the highest and "F" being the lowest). Class "D" is the standard class. A special class of "S" is used for mansions and luxury structures.

Class "A" represents the excellent or expensive types of structure. Generally, these structures are custom designed and constructed. These structures are the best structures built with high quality and special materials. Craftsmanship is very good with architectural supervision. Buildings of this type far surpass the building codes and requirements of mortgage loan agencies.

Class "B" structures are rated as expensive. Normally, this class of structures is custom designed and built for the owners. More ornate trim around eaves, gables, and entrances is generally in evidence. Foundation and framing conform to good engineering practices. Material and workmanship are of high quality, and the structure fulfills all the requirements of building codes and lending agencies.

Class "C" is a good, better than standard structure. Buildings of this classification are of better than standard design and construction, and may contain extra conveniences which appeal to the owner. Materials are generally a better than standard quality, and workmanship is of a skilled nature. Plumbing fixtures are better than average and there will be many closets and cabinets. Buildings of this classification will meet or exceed building codes and lending agencies requirements.

Class "D" represents the standard quality structure throughout the state. This type of structure is usually located in average to good residential and commercial sections. It has more design features than the lower classifications. Workmanship and materials are of average quality and meet all building code and mortgage loan requirements.

Class "E" structures can be considered slightly below standard, or "fair." Structures of this classification are built from stock plans by contractors, though there may be cases when the interior finish is owner-applied. Plumbing is of medium grade, and wiring is adequate to provide ample outlets. Closets and cabinets will be adequate but not excessive. Buildings of this classification may not meet building codes and lending agencies requirements.

Class "F" is a low cost or "poor" type of structure, usually a one-story square or rectangle building of some simple design. This class building is constructed for its utility with no thought given to design or appearance. They are often constructed with used materials, and these buildings do not meet minimum requirements for loan purposes or building codes.

When classing older structures, the same factors come into consideration. If the structure was built in the 1920's or 30's, does it represent what was the standard building of its type for that period? If it is an average quality structure for the 1920 era, then regardless of condition, it would be classified as a "D" structure.

There are quite a few classifiers who confuse age with quality. A structure built with high quality workmanship, materials and design--even if only in a 20 percent good condition--would still carry an "A" or "B" classification.

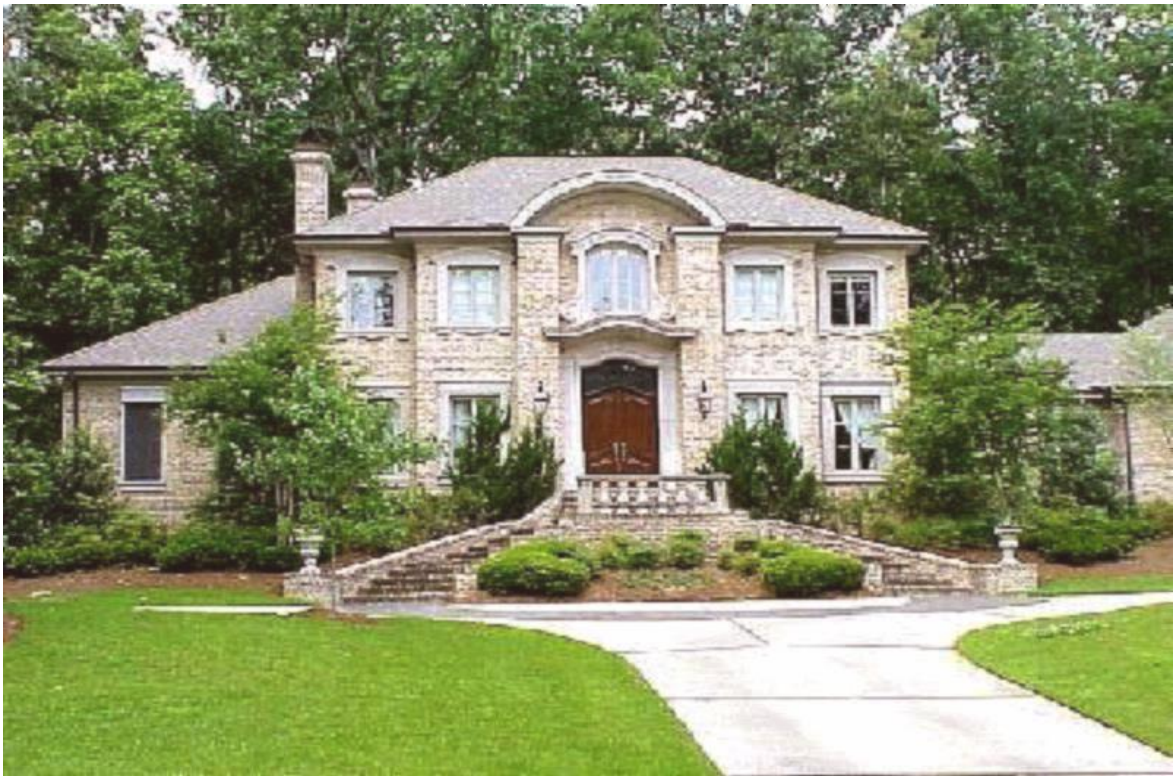
"Plus" and "minus" adjustments: Assuming that the class of a structure is recognizable to the appraiser, the next step is to be able to make certain adjustments to these classes because of special exterior features which may be observed and interior features which may be recorded on the Property Record Card. Adjustments of this type are called "plus" and "minus" adjustments. The purpose, again, is to recognize additional cost due to features which cannot be expressed in construction units. There are allowable averages which may be taken when, for example, one-fourth of an exterior wall is brick veneer and three-fourths is wood on sheathing. What should the appraiser do when less than one-fourth of an exterior wall is of a different material but obviously involving an appreciable amount of cost? It is this type of cost that can be recognized by use of a "plus" added to the class. This procedure can be applied to other variations from the normal involving any component of the structure.

Arriving at a letter classification, that is an A, B, C, D, E, or F, should pose no real problem for an experienced classifier. However, many classifiers will disagree on the application of a "plus" or "minus" to the letter classification.

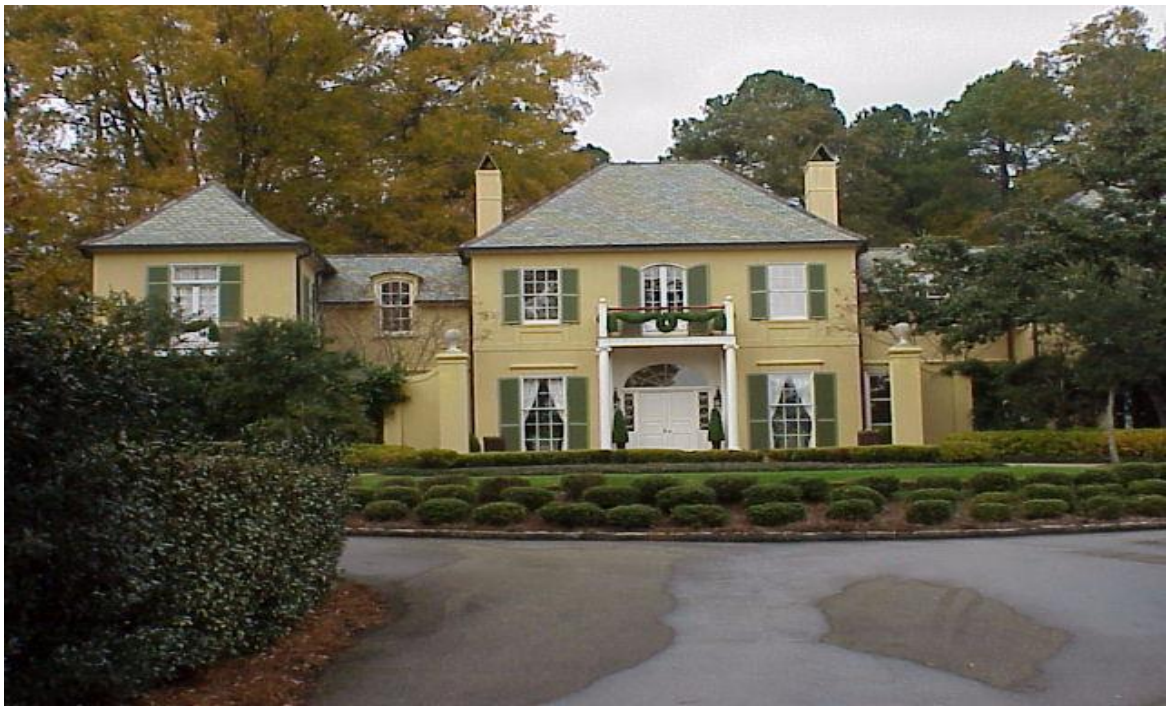
## CLASSIFICATION UNITS

| CLASS | MINUS | EVEN | PLUS |
|---|---|---|---|
| S | + 135 | + 161 | + 174 |
| A | + 88 | + 102 | + 117 |
| B | + 49 | + 65 | + 78 |
| C | + 13 | + 24 | + 33 |
| D | - 5 | 0 | + 5 |
| E | - 16 | - 12 | - 8 |
| F | - 32 | - 24 | - 20 |

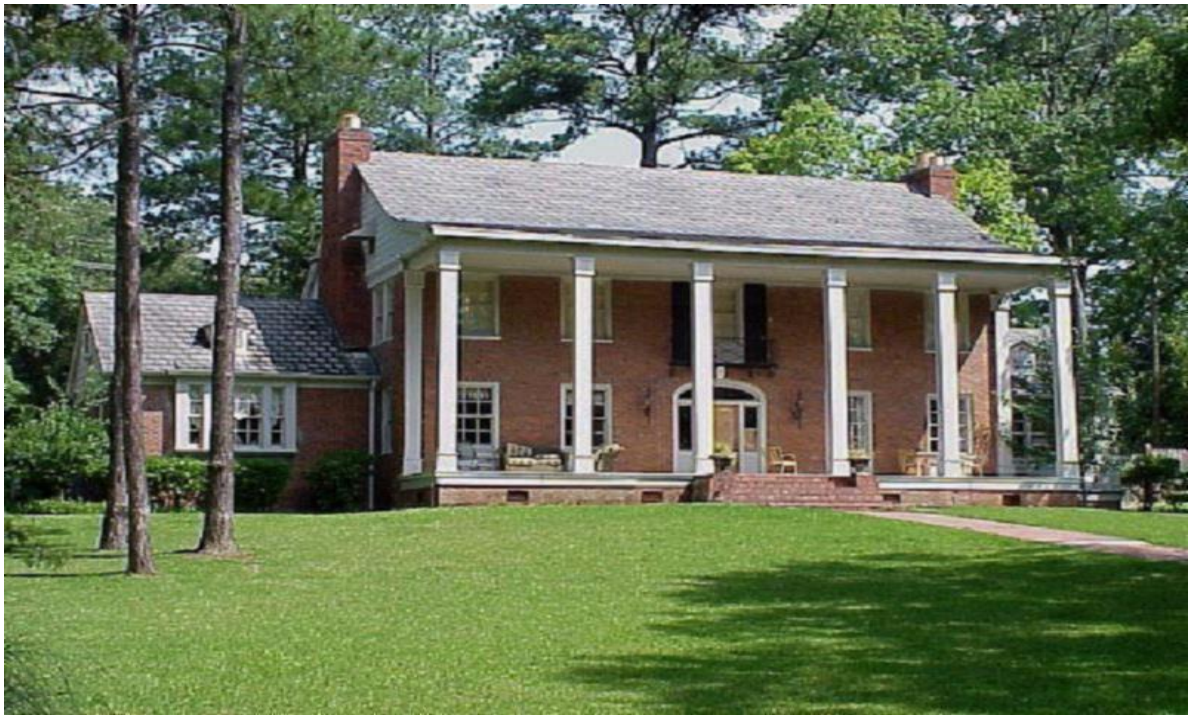
## EXAMPLES OF CLASS "S" RESIDENCES



## EXAMPLES OF CLASS "A" RESIDENCES



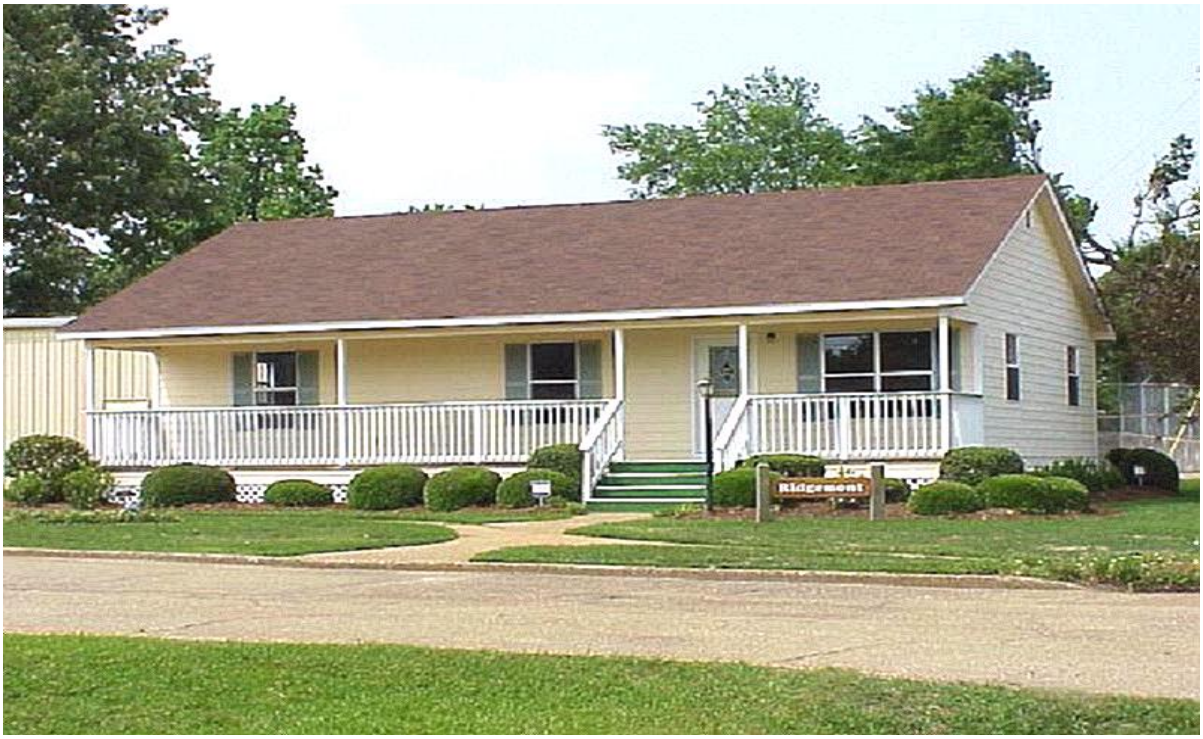
## EXAMPLES OF CLASS "B" RESIDENCES



## EXAMPLES OF CLASS "C" RESIDENCES

## EXAMPLES OF CLASS "D" RESIDENCES

## EXAMPLES OF CLASS "E" RESIDENCES



## EXAMPLES OF CLASS "F" RESIDENCES

## DEPRECIATION

Depreciation is defined as loss of value from any cause. It is also the difference between reproduction or replacement cost new and market value.

The three (3) types of depreciation are:

1. Physical Depreciation--loss of value due to the effect of wear and tear of the building from use and exposure to the elements. A new improvement would have little or no physical depreciation, assuming that the construction is complete. However, after the effects of wear and tear from use of the improvement and weathering, the amount of depreciation will begin to increase. How rapidly a building will depreciate depends on how well the improvement has been maintained and the quality of materials used in construction.

2. Functional Obsolescence--loss of value due to the inability of the structure to adequately perform the function for which it is normally used. This form of depreciation exists within the structure. Examples of functional obsolescence include poor planning, out-of-date design, poor physical layout of rooms, and inadequate or lack of mechanical equipment.

3. Economic Obsolescence--loss of value as a result of factors external to the property. These influences include neighborhood decline, governmental regulations and restrictions, consumer income patterns, and market conditions, such as interest rates, supply and demand, and inflation rates.

It is the duty of the appraiser to estimate physical depreciation by inspection of the structure and to estimate obsolescence by investigating the facts. The estimated percentage of depreciation deducted from 100 percent (100%) will render what is called "percent condition" or "percent good." For example, a building which is estimated to be thirty percent (30%) depreciated is said to be in seventy percent (70%) condition.

Straightline depreciation is the most commonly used method and is extensively used by tax assessors. It assumes that the value of a building will decline at a uniform rate throughout its useful life. It is recommended that this method be used, up to a point. Thereafter, the "observed condition" method should be the dominant concept used in depreciating a structure. This involves inspection and investigation on the part of the appraiser. At any time that observed condition differs from straight-line depreciation, the former should take precedent. A depreciation table is shown on the following page, but there are definite limits to its use; at best, it is a guide and must be applied with sound judgment.

## Residential Depreciation Schedules (Physical deterioration only, net percent good)

| Age in Years | Class A | Class B | Class C | Class D | Class E | Class F |
|---|---|---|---|---|---|---|
| 1 | 0.98 | 0.98 | 0.98 | 0.98 | 0.98 | 0.98 |
| 2 | 0.97 | 0.97 | 0.97 | 0.97 | 0.97 | 0.96 |
| 3 | 0.96 | 0.96 | 0.96 | 0.95 | 0.95 | 0.94 |
| 4 | 0.95 | 0.95 | 0.95 | 0.94 | 0.94 | 0.92 |
| 5 | 0.94 | 0.94 | 0.94 | 0.93 | 0.92 | 0.90 |
| 6 | 0.94 | 0.93 | 0.93 | 0.92 | 0.91 | 0.88 |
| 7 | 0.93 | 0.92 | 0.92 | 0.91 | 0.89 | 0.86 |
| 8 | 0.92 | 0.91 | 0.91 | 0.90 | 0.88 | 0.84 |
| 9 | 0.91 | 0.90 | 0.90 | 0.89 | 0.86 | 0.82 |
| 10 | 0.90 | 0.89 | 0.89 | 0.88 | 0.85 | 0.80 |
| 11 | 0.89 | 0.88 | 0.88 | 0.86 | 0.83 | 0.78 |
| 12 | 0.89 | 0.88 | 0.87 | 0.85 | 0.82 | 0.75 |
| 13 | 0.88 | 0.87 | 0.86 | 0.84 | 0.80 | 0.73 |
| 14 | 0.87 | 0.86 | 0.85 | 0.83 | 0.79 | 0.71 |
| 15 | 0.86 | 0.85 | 0.84 | 0.82 | 0.77 | 0.69 |
| 16 | 0.86 | 0.84 | 0.83 | 0.81 | 0.76 | 0.67 |
| 17 | 0.85 | 0.83 | 0.82 | 0.80 | 0.74 | 0.65 |
| 18 | 0.84 | 0.82 | 0.81 | 0.79 | 0.73 | 0.63 |
| 19 | 0.83 | 0.81 | 0.80 | 0.78 | 0.71 | 0.61 |
| 20 | 0.82 | 0.80 | 0.79 | 0.77 | 0.69 | 0.59 |
| 21 | 0.82 | 0.79 | 0.78 | 0.76 | 0.68 | 0.57 |
| 22 | 0.81 | 0.78 | 0.77 | 0.75 | 0.66 | 0.55 |
| 23 | 0.80 | 0.77 | 0.76 | 0.74 | 0.65 | 0.53 |
| 24 | 0.79 | 0.76 | 0.75 | 0.73 | 0.63 | 0.51 |
| 25 | 0.79 | 0.75 | 0.74 | 0.72 | 0.62 | 0.49 |
| 26 | 0.78 | 0.74 | 0.73 | 0.71 | 0.60 | 0.47 |
| 27 | 0.77 | 0.73 | 0.72 | 0.70 | 0.59 | 0.44 |
| 28 | 0.77 | 0.71 | 0.71 | 0.69 | 0.57 | 0.42 |
| 29 | 0.76 | 0.73 | 0.70 | 0.68 | 0.56 | 0.40 |
| 30 | 0.75 | 0.72 | 0.69 | 0.67 | 0.54 | 0.38 |
| 31 | 0.75 | 0.71 | 0.68 | 0.66 | 0.53 | |
| 32 | 0.74 | 0.70 | 0.67 | 0.66 | 0.51 | |
| 33 | 0.73 | 0.69 | 0.66 | 0.65 | 0.50 | |
| 34 | 0.73 | 0.68 | 0.65 | 0.64 | 0.48 | |
| 35 | 0.72 | 0.68 | 0.64 | 0.63 | 0.47 | |
| 36 | 0.71 | 0.67 | 0.64 | 0.62 | 0.45 | |
| 37 | 0.71 | 0.66 | 0.63 | 0.61 | 0.44 | |
| 38 | 0.70 | 0.65 | 0.62 | 0.60 | 0.42 | |
| 39 | 0.69 | 0.65 | 0.61 | 0.60 | 0.41 | |
| 40 | 0.69 | 0.64 | 0.60 | 0.59 | 0.39 | |
| 41 | 0.68 | 0.63 | 0.60 | 0.58 | | |
| 42 | 0.67 | 0.62 | 0.59 | 0.57 | | |
| 43 | 0.67 | 0.62 | 0.58 | 0.56 | | |
| 44 | 0.66 | 0.61 | 0.57 | 0.55 | | |
| 45 | 0.66 | 0.60 | 0.57 | 0.55 | | |
| 46 | 0.65 | 0.60 | 0.56 | 0.54 | | |
| 47 | 0.65 | 0.59 | 0.55 | 0.53 | | |
| 48 | 0.64 | 0.58 | 0.54 | 0.52 | | |
| 49 | 0.64 | 0.58 | 0.54 | 0.52 | | |
| 50 | 0.63 | 0.57 | 0.53 | 0.51 | | |
| 51 | 0.63 | 0.56 | 0.52 | 0.50 | | |
| 52 | 0.62 | 0.56 | 0.52 | 0.49 | | |
| 53 | 0.62 | 0.55 | 0.51 | 0.49 | | |
| 54 | 0.61 | 0.54 | 0.50 | 0.48 | | |
| 55 | 0.61 | 0.54 | 0.50 | 0.47 | | |
| 56 | 0.60 | 0.53 | | | | |
| 57 | 0.60 | 0.53 | | | | |
| 58 | 0.59 | 0.51 | | | | |
| 59 | 0.59 | 0.51 | | | | |
| 60 | 0.58 | 0.50 | | | | |

**Note: The above tables are guidelines only. If observed condition or other supporting data indicate a different effective age is appropriate, the appraiser may substitute that effective age for the depreciation listed in these schedules.**

Another method of determining the amount of depreciation on a building is taken from the sales comparison approach and is a building residual technique. This method is used to determine the amount of depreciation for older homes. The land value is subtracted from the total sales price to arrive at the improvement value. The improvement value is then subtracted from the replacement cost new (RCN). This gives the dollar amount of depreciation. To convert this to a percentage, divide the amount of depreciation by the RCN. For example:

| | | |
|---|---|---|
| RCN | | $170,000 |
| Sales Price | | $180,000 |
| Land Value | | - 25,000 |
| Improvement Value | | $155,000 |
| Depreciation | = | RCN - Improvement Value |
| | = | $170,000 - $155,000 |
| | = | $15,000 |
| Convert to % | = | Depreciation ($) / RCN |
| | = | $15,000 / $170,000 |
| | = | 0.88 or 9% (Depreciation) |
| Condition (% Good) | = | 1.000 - 0.09 |
| | = | 0.91 or 91% (Condition) |

Certain areas of your county may require additional depreciation above and beyond what you determine to be standard. An example of this would be a house in a metropolitan area that is conditioned 70% good while a similar house in a depressed rural area would be depreciated differently due to economic factors. These economic factors must be determined from sales in the areas under question. To determine the economic write-off for an area, all sales in that area must be used. A very thorough study is required to determine and justify these percentages.