

# The Value of the Cost Approach

## A Trustworthy Benchmark of Value

The Cost Approach, which is the theory that the value of a property can be estimated by summing the land value and the depreciated value of any improvements, has always served as a crucial quality control function to verify market-based estimates and help identify a potential runaway or rapidly declining market. The Cost Approach is one of the most reliable valuation methods providing a much needed reality check in both strong and weak markets.

## The Reality Check in a Runaway Market

In the markets we serve, the local economies have witnessed time and again that markets unmonitored by added validation and checks are capable of generating unsustainable transaction values and bubble-like conditions. Appraisers can respond to concerns about inflated appraisal values by incorporating the cost approach into their daily operations to ensure report accountability and validation.

## The Gold Standard of Building Cost Data

Incorporating more than 80 years of experience, Marshall & Swift® building cost data consists of three cost methodologies ensuring you have the tools for a complete and defensible determination of value.

- ▶ **Square Foot Methodology:** The most commonly used calculator/assumptive valuation method based on the gross square footage of dwellings by location.
- ▶ **Segregated Methodology:** Used component-by-component costs of superstructures such as foundation, frame, plumbing, electrical, etc.
- ▶ **Unit-In-Place Costs:** Individual pricing of components such as windows, doors, roofs, yard improvements, etc.



### Benefits:

- ▶ Improved consistency and accuracy in your property valuations
- ▶ The ability to project costs for new or proposed construction or where a lack of market activity exists
- ▶ Enhanced risk assessment that helps mitigate foreclosures
- ▶ Verification of the validity of market values
- ▶ The ability to determine depreciation values for physical deterioration or functional/ external obsolescence
- ▶ Knowledge for lenders so they can properly ensure the value of the home is appropriate for the loan amount

FOR MORE INFORMATION, PLEASE CALL 800-544-2678

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