



**The Principle of Substitution:**

The value of a property is set by the price paid to acquire a substitute property of similar utility and desirability.

**Tuesday's Appraisal Tip from Axis, Your Appraisal Partner**

Beware of listings in your market! In declining or unstable markets, closed sales only tell part of the "value story." Listings tell the other part.

**Example:** your borrower has a condominium and you see that there were three like-properties that have closed in the last 60 days, and that when adjusted for minor differences, have a value range of \$125,000-135,000. However, there are two new listings in the development, and they have been listed for 30 days with a similar floor plan for \$120,000. These listings can "cap the market." This is called the Principle of Substitution and it is an important appraisal principle. In the example above, why would a buyer pay more when other sales are readily available and equally desirable?

So...when looking into a market, make sure to check the current listings as well as the closed sales.

*Axis Appraisal Management is the **national** solution for **local** appraisals.*