

Condition & Obsolescence: Industry Definitions

The standard vocabulary of the appraisal and assessment profession for building condition and the two obsolescence factors, with citations. Prepared as a reference to accompany the Norway 2026 revaluation analysis; contains definitions only, no Norway data.

1. The framework: three causes of depreciation

In the cost approach, a building is valued at replacement cost new less **accrued depreciation**. The IAAO Glossary defines depreciation as “loss in value of an object, relative to its replacement cost new” from any cause, and accrued depreciation as the combined loss from exactly three causes: **physical deterioration** (wear and decay of the structure itself), **functional obsolescence** (defects of design or utility inside the property), and **economic or external obsolescence** (loss imposed from outside the property). The profession’s core texts — *The Appraisal of Real Estate* (Appraisal Institute) and IAAO’s *Property Assessment Valuation* — treat the cost approach as incomplete until all three have been estimated. On a mass-appraisal card the three appear as multipliers: condition (percent good), F.Obs, and E.Obs, each between 0 and 100%, with 100% asserting that no impairment of that kind exists.

2. Functional obsolescence

Definition: loss of value from deficiencies *within* the improvement — suboptimal design, materials, or utility measured against current market standards, even if the building is physically sound for its age.

Recognized forms (The Appraisal of Real Estate; IAAO glossary and coursework): a **deficiency** — the building lacks something the market requires: a missing kitchen or bathroom, inadequate ceiling height, no heating plant, a floor plan requiring passage through one bedroom to reach another; a **superadequacy** — a feature whose cost exceeds its contribution; and a **defect requiring replacement**. Measurement is prescribed, not discretionary: a curable item is measured by the cost to cure; an incurable one by capitalized rent loss or by paired sales of properties with and without the defect. A dwelling lacking a kitchen or a bathroom is the textbook example of severe, largely incurable functional loss — such a structure does not contain a dwelling unit as building and health codes define one.

3. Economic (external) obsolescence

Definition: loss of value from conditions *outside* the property’s boundaries, which the owner cannot cure: neighborhood blight or deteriorating surrounding structures, proximity to nuisances (traffic, industry, vacancy), adverse market or locational conditions, diminished demand. The IAAO Glossary characterizes it as loss from poor location or radically diminished demand; because the owner cannot remedy its cause, external obsolescence is treated as incurable by definition.

Measurement (The Appraisal of Real Estate; Gloudemans, *Mass Appraisal of Real Property*): **paired-sales analysis** — compare sales of similar properties inside and outside the affected area; **capitalization of income loss** — the rent differential attributable to the external condition, capitalized; **market extraction** — what affected properties sell for versus their depreciated cost. The IAAO Standard on Mass Appraisal of Real Property directs that estimates of accrued depreciation must be based on non-cost data — primarily sales — and that depreciation schedules be extracted from sales data. Mass appraisal may lawfully apply an external-obsolescence factor at the neighborhood or district level, but the standard requires the district and its percentage to come out of market analysis and to be validated by ratio-study performance within each stratum — a factor assigned as a constant, without sales support, is not an estimate under the standard.

A rigorous test: when does external obsolescence belong to the structure at all?

A peer-reviewed 2021 analysis (Longhofer, *The Appraisal Journal*) resolves a problem practitioners have long faced: an external condition — a busy street, a falling market, a nearby nuisance — almost always depresses the land’s value too, so applying an obsolescence factor to the building on top of a market-based land value risks counting the same loss twice. The article’s central result: external obsolescence of the *structure* exists if and only if the property’s current use is not its highest and best use — whether by type (the wrong kind of building for the site) or by scale (the right kind, but the wrong size). If the current structure is what would be built on the site today, any change in market conditions is captured entirely in the land value — no external-obsolescence factor

belongs on the building at all. If the structure is no longer optimal for the site, only the residual — the gap between the land's value in its best use and its value under the current, suboptimal use — belongs to the structure. Applied to a mass-appraisal card, this gives a check on every E.Obs entry beyond the value of the entry itself: an E.Obs factor on a building whose type and scale still match the site's highest and best use is not describing external obsolescence of the structure — it is a land-value adjustment booked to the building line instead. The same source and a practitioner-level companion (McKissock Learning, 2025) group the possible causes into the same short list — neighborhood decline, proximity to a nuisance or hazard, adverse zoning or nearby development, market or income shifts — and both describe external obsolescence as incurable by the owner: unlike physical deterioration or a fixable functional defect, no maintenance or renovation on the parcel itself can restore the loss.

4. Building condition: the 0–100% “percent good” scale

The condition factor is a percent-good multiplier: the share of replacement cost new the structure retains after physical deterioration. It descends from the Marshall & Swift valuation service and the CDU (Condition-Desirability-Utility) rating system used in assessment manuals nationwide. The residential lending industry expresses the same ladder as UAD ratings C1–C6 (Fannie Mae/Freddie Mac), mandatory in every residential appraisal. The correspondence, as published across assessment manuals and the UAD definitions:

Percent good	CDU category	UAD	What the manuals describe
97–100%	Excellent	C1–C2	New or as-new; no visible deterioration; recently built or fully rebuilt
90–95%	Very good	C2–C3	Slight deterioration, entirely curable with normal maintenance
80–85%	Good	C3–C4	Minor deterioration; well maintained; better upkeep than typical
70–75%	Average	C4	Normal wear and tear for its age; modest deferred maintenance
60–65%	Fair	C4–C5	Marked deferred maintenance needing repair beyond normal upkeep — but occupied, functioning, usable
40–55%	Poor	C5	Definite, obvious deterioration; barely usable; livability diminished; major repairs required
20–35%	Very poor	C6	Major deterioration with structural faults, not economically curable; approaching unfitness
0–20%	Unsound	C6	Unfit for use or occupancy; end of useful life; valued at salvage — land less demolition

Two properties of the scale matter in practice. It is **calibrated to occupancy**: everything at Fair (60%) and above describes a usable, occupied building; the scale reserves its entire bottom half for structures that are not. And it is **anchored to the market at both ends**: UAD C6 properties are routinely valued at land value minus demolition cost, and 100% asserts the building is worth its full replacement cost — a claim true only of new construction.

5. Data-quality standards for assigning these factors

The IAAO Standard on Mass Appraisal of Real Property sets floors for the field work that produces these ratings: subjective judgments such as quality grade and condition should be coded correctly at least **90 percent** of the time; objective characteristics at least 95 percent; and an on-site physical review of property characteristics is expected at least every **4 to 6 years**. A jurisdiction's ratings can be audited against these floors by field inspection.

Sources

- IAAO, *Glossary for Property Appraisal and Assessment* (3rd ed.) — definitions of depreciation, accrued depreciation, and the three causes.
- IAAO, *Standard on Mass Appraisal of Real Property* — depreciation from non-cost (sales) data; extraction of schedules; 90%/95% coding-accuracy floors; 4–6-year physical review. iaao.org.
- Fannie Mae / Freddie Mac, Uniform Appraisal Dataset (UAD) Condition Ratings C1–C6 — the national lending standard; C5 (significant deferred maintenance, diminished livability) and C6 (structural integrity affected, not suitable for occupancy).
- Appraisal Institute, *The Appraisal of Real Estate* — the breakdown method; deficiency/superadequacy; measurement of curable and incurable obsolescence; methods for external obsolescence.
- Gloudemans, *Mass Appraisal of Real Property*; Gloudemans & Almy, *Fundamentals of Mass Appraisal* — the depreciation-extraction methods the IAAO Standard cites.

- Marshall & Swift (Marshall Valuation Service) and derived CDU guidelines — the condition-category descriptions reproduced in assessment manuals (e.g., Indiana DLGF Real Property Assessment Guidelines App. B; Fort Bend CAD Residential Appraisal Manual; municipal CDU guides, Ossining NY; Yadkin County NC Schedule of Values).
- Longhofer, Stanley D., "Land Values and External Obsolescence," *The Appraisal Journal* (Spring 2021): 95–103 — the highest-and-best-use test for allocating external value loss between land and structure.
- McKissock Learning, "What Is External Obsolescence in Real Estate Appraisal?" (Jan. 2025, rev. June 2025) — practitioner overview of causes, measurement techniques, and the "uncurable" characterization.