Chapter 13

Property Values & Appraisals

Chapter 13 Goals:

- Define appraisal
- Define the role of an appraiser
- Describe the purpose of an appraisal report
- Understand the various requirements to become a licensed appraiser
- Understand how an appraiser determines property value
- List economic indicators which determine property value
- List the various appraisal methods used to determine propeerty value

Chapter 13: Property Values & Appraisals

Key Terms

anticipation appraisal arm's length transaction broker's price opinion (BPO) capitalization rate certified general license certified residential license comparables comparative market analysis competition Competitive Market Analysis (CMA) conformity contract rent contribution cost approach decline effective gross income equilibrium	gentrification Gross Income Multiplier (GIM) growth highest and best use Home Valuation Code of Conduct (HVCC) home improvement income capitalization approach index method market rent market value net operating income Office of Real Estate Appraisers (OREA) potential gross income progression quantity survey method	reconciliation regression replacement cost reproduction cost residential licensee restricted use report revitalization sales comparison approach self-contained report site value square foot method summary report supply and demand transferability trainee license unit in place method value in exchange value in use

Property Values

A property's **market value** refers to how much the average consumer is willing to pay for a property.

Among the many factors that determine a property's value are:

- *Supply*. Are properties scarce or are there many similar listings available on the market?
- *Demand.* Are there many buyers on the market looking for similar properties?
- *Use*. Is the property's use residential or commercial? Does the property contain any special features?
- *Potential*. Is there room for renovation or modern updates? Can a piece of undeveloped land be developed?
- *Transferability*. Are there any liens or encumbrances inhibiting a property's sale or ownership interest?

Values vary based on how useful or valuable an item is to a specific party.

The exchanged value of money for products is called **value in exchange**. How valuable a particular property is for a consumer's use is known as **value in use**.

An **arm's length transaction** refers to the price for which a property would be sold on the open market independent of sweet heart deals. In such a transaction, the parties of the transaction would not one other or have a reason to give favoritism to one party over the other. The party's in an arm's length transaction must act independently to each other with their own self interest in mind without any duress from either party.

An arm's length transaction has the following conditions:

- The sale is a standard listing (i.e. not a short sale, auction, bankruptcy)
- The listing is open, truthful, and available to the public, which allows its true value to be determined
- The transaction is a standard purchase (i.e. not bought by a friend or family member, which might skew the price)
- A buyer is not acting under duress, which is to say that they are aware of all components of the transaction

Life Cycle of Real Estate

Real estate goes through natural life cycles.

Initially, there are periods of **growth**. Properties are developed, leading to increased property values and further development. In periods of growth, consumers believe real estate is a great investment. They believe they should secure a desirable property before it becomes too expensive and they tend to buy.

A growth period is followed by a period of price stability, known as **equilibrium**.

Equilibrium is followed by a period of **decline**. Decline is often caused by a downturn in the economy. Economic downturns result in less growth (i.e. less development, less money circulation), higher inflation, and decreased property values.

As property values decrease, buyers become hesitant about purchasing real estate as the value of their purchase will be less in the near future. Current homeowners are less able to finance home repairs, renovations, and upkeep, which can lead to the deterioration of property conditions in some neighborhoods.

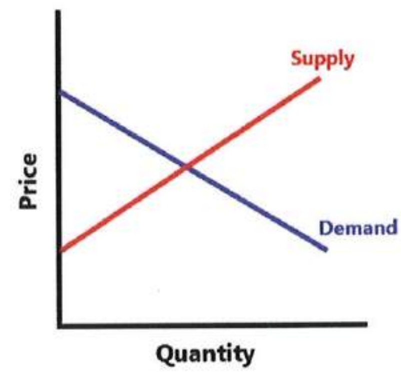
Conversely, many real estate investors enter the market at this time to buy real estate when property values are low.

After a period of decline, revitalization occurs. **Revitalization** occurs when a new generation of buyers focuses on repairing and renewing properties. If one neighbor begins making home repairs or improvements, other neighbors will soon follow. This leads to increased property values. When property values rise, other neighbors will have a higher chance of qualifying for a second loan for home repairs and improvements.

This cycle occurs in almost all neighborhoods and cities at some point. The underlying factor at work in this cycle is supply and demand.

Supply & Demand

Supply and demand – also known as the invisible hand – refers to the relative supply of a product or service to the consumer demand for it.



Notable economist, Adam Smith, created the concept of supply and demand. Smith concluded that although governments can create conditions that alter the price a consumer is willing to pay for a product or service, markets are what really determine a product's value.

Real estate is no different.

Real estate property values are driven by supply and demand in the market, or the supply of available properties in relation to buyer demand for those properties. This supply and demand creates natural market **competition.**

When there is an abundance of available properties and a limited number of buyers actively seeking to purchase them, there is a low demand and a high supply. Under these conditions, buyers have more leverage and property values decrease. Therefore, it is a buyer's market.

When property values begin to increase, buyers are incentivized to purchase before prices get too high. This can create an overabundance of buyers competing for a limited inventory of properties, or a high demand and lower supply. Buyer competition gives a seller leverage to sell his or her property at a higher price, which subsequently drives market prices higher. Therefore, it is a seller's market.

Therefore, supply and demand is the ultimate determinant of a property's market value.

The following contributors to property value are also tied to supply and demand.

Conformity

Every neighborhood tends to favor certain styles of homes over others. This is known as **conformity**.

For example, assume a property is located in a community that is regulated by a H.O.A. The property must conform to the general rules and regulations regarding style of the building.

Another example of this when there is no presence of a H.O.A. is a property located in an area where almost all homes are Spanish style. Say for instance, a property owner decides to do ground up construction on a modern home, the property would not conform to the style of most property's in the area. In this instance the value of the modern property would be reduced simply because of where it's built and the fact that it does not conform to the general style of the area.

If a property does not conform to the general property style in a neighborhood, its value may be lower than comparable properties and/or it may be more challenging to sell.

Progression & Regression

Progression refers to when property values in an area increase due to the neighboring properties being large, well designed, and/or well maintained. Increased demand causes an increase in property values.

Regression refers to when a property's value is decreased due to neighboring properties being smaller, older, and/or not as well designed. The lack of demand causes a property's value to decrease.

For example, say a homeowner has an extravagant home with the latest features that is worth $600,000. However, the home is located in a neighborhood of fairly modest, older homes with an average value of $200,000. If the homeowner decides to sell, the lower property values in the neighborhood will result in a lower average price per square foot when calculating the home's value. An appraiser may use other factors to determine the home's value, but it will be difficult to attract buyers willing to pay the full value of the homeowner's home in an otherwise unappealing neighborhood.

Gentrification

An appraiser must understand the shifting patterns of the real estate market and how that affects property values. One of these shifts is gentrification.

Gentrification is a real estate trend wherein more affluent consumers move into a certain neighborhood, resulting in increased property values, higher rents, and ultimately, the displacement of the neighborhood's original, less affluent residents.

Gentrification occurs when there is significant interest in a specific market, either for its location, the opportunities it offers, or a combination of the two.

Typically, gentrification begins when large businesses or entertainment sectors move into an area. This increases an area's appeal and consumer demand to live there. Other capital investments subsequently move in to capitalize on the rising demand, which further increases the quality of the area.

Example: Downtown Los Angeles

Downtown Los Angeles was once considered an undesirable neighborhood. Many people worked there during the day, but it was dangerous to walk the streets at night and most people did not want to live there.

However, in 2005, the Staples Center was constructed. Home to the Lakers and Clippers basketball teams and an entertainment venue that could put on concerts, the Staples Center starting drawing many consumers to Downtown.

Soon after, the Downtown area experienced a dramatic gentrification. A large increase in police officers started patrolling the streets. The increased traffic to the Staples Center and heightened safety in the neighborhood drew other businesses to the area, including the Nokia Center, LA Live, and world-famous restaurants. Many developers met the rising demand by building large apartment buildings, hotels, and increased tourist attractions.

Through gentrification, Downtown Los Angeles has become a world-class neighborhood in one of the largest cities in the world.

Changes

There are a wide variety of changes that can alter the landscape of the real estate market. These changes can incentivize or discourage homeowners and investors from buying properties in particular neighborhoods at given time periods.

The most common changes are:

- *Economic changes.* Job availability, credit availability, growth rate, inflation, consumer spending, real estate appreciation and depreciation

- *Social changes.* Schooling, transportation, leisure, lifestyle
- *Political changes.* Tax structure, zoning rules and regulations
- *Physical changes.* Natural disasters

The largest determinants of market changes are economic.

Anticipation

Many homeowners purchase properties with the prospect of future growth in mind. Buying real estate based on potential is known as **anticipation**.

As a general rule, property values increase in the long-term. Therefore, some buyers purchase properties when values are low in order to capitalize on increased values in the future. This not only allows a buyer to pay a lower purchase price, but also increases his or her ability to build equity in the near future.

Home Improvements

Most home improvements – also known as **contributions** – increase the value of a property.

Not all home improvements are equal, however. An improvement only adds value if it is desirable to buyers in that given area. Put another way, there must be a demand for the home improvement in order for it to add value.

For example, say a homeowner fixes a property's attic and creates a home office in the garage. These improvements may only slightly increase the property's value, as an attic and a home office are not considered as valuable as an added bedroom or bathroom.

Another example: if most properties in a neighborhood have 3-4 bedrooms and 2-3 bathrooms and a subject property only has 2 bedrooms and 2 bathrooms, a renovation to add an additional bedroom would substantially increase the subject property's value as there is an existing demand for more bedrooms/bathrooms.

Appraisals

In order to sell a property within a reasonable time period, a seller must list a property at an appropriate price. If a listing price is too high, consumers will not be willing to place bids or buy the property; if it is too low, a seller will lose money on the sale.

A **competitive market analysis (CMA)** is a tool used by agents to estimate the current market value of a property. A CMA is essentially a miniature, informal appraisal. This analysis is typically used to establish a property's listing price; however, it is not considered an official appraisal and generally cannot be used to determine financing.

Conversely, an appraisal is more in-depth than a CMA and can be used to determine financing. An **appraisal** is an assessment of a property's market value.

Appraisal Laws

The **Office of Real Estate Appraisers (OREA)** regulates appraising laws.

Prior to 2008, many lenders and mortgage brokers used their own appraisers to conduct appraisals. However, lawmakers and real estate professionals argued that this gave lenders the ability to influence the appraisal reports. After the real estate collapse of 2008, new appraisal regulations were implemented.

The **Home Valuation Code of Conduct (HVCC)** was passed in March 2008 with the goal of ending collusion between lenders and appraisers. It brought forward new rules to reduce the potential for biased or inaccurate appraisals.

Under HVCC, lenders and mortgage brokers who sell conventional loans to government agencies (i.e. Fannie Mae, Freddie Mac) can no longer handpick their own appraisers. Instead, a third party appraisal management company must select an appraiser from its own pool of appraisers.

Appraiser Licenses

An appraiser license ensures that an appraiser has a minimum set of knowledge prior to preparing appraisal reports. This, in turn, protects consumers.

There are four types of appraiser licenses:

1. *Trainee License.* The first and most basic type of appraiser license. A trainee license requires 150 hours of classroom instruction. The main goal of the trainee-licensing program is to provide instruction and supervision under the watchful eye of a residential licensee.
2. *Residential Licensee.* A residential licensee requires 150 hours of classroom instruction and an equivalent of 2,000 hours of approved appraisal experience of residential property between one and four units.
3. *Certified Residential License.* A certified residential licensee requires 200 hours of classroom instruction, a minimum of 2,500 hours and two and a half years

of approved appraisal experience, and a bachelor's degree with proof of attendance or 30 semester-equivalent hours.

4. *Certified General License.* The most advanced appraiser license. A certified general licensee requires 300 hours of classroom instruction, a minimum of 3,000 hours and two and half years of approved appraisal experience (50% of which must be from appraisals on residential real estate), and a bachelor's degree with proof of attendance or 30 semester-equivalent hours.

Appraiser license applicants are also required to complete a 15-hour Uniform Standards of Professional Appraisal Practice course. This is part of the classroom instruction requirement. Appraisers must retake the course after two years on the job to ensure that they are up-to-date on all aspects of the real estate market.

After an applicant completes the requirements for the appropriate license, the applicant must pass a national test to verify that he or she has met the minimum appraiser knowledge requirements.

Appraiser licenses are valid for four years. A license must be renewed after it expires.

The Appraisal Process

Real estate appraisals are not an exact science. One appraiser may view a subject property in a radically different way than another appraiser. Real estate professionals, sellers, and buyers are encouraged to involve themselves in the appraisal process as their assistance in explaining the subtle differences of each property can affect a property's appraised value.

Area

An appraiser's job begins with understanding the area in which a subject property is located. A property's value is determined by:

- *Location.* Where a subject property is located (i.e. type of neighborhood, proximity to urban centers) is the center point of all property value assessments.
- *Neighborhood.* An appraiser must also take into consideration local preferences when estimating a subject property's value. For example, if all houses in a neighborhood are a Spanish style and a subject property is a modern style, an appraiser must consider how the market will react to the difference in design and style.
- *Growth.* An appraiser must ask the following questions: Is a subject property's neighborhood experiencing growth? Will zoning ordinances prohibit or

encourage future growth? Is there a specific industry that is prevalent in the area?

- *Demand.* Demand dictates the value of a subject property. An appraiser must determine whether the demand in a particular area outweighs the supply, thereby increasing property values (or vice versa).

After an appraiser assesses the area in which a subject property is located, he or she must then determine the specific value of the subject property.

Highest and Best Use

Highest and best use refers to a property's value based on its most profitable and permissible use.

An example would be a vacant piece of land in a gentrifying neighborhood. Although the land is currently "useless", it is big enough to develop a 24-unit apartment building. An appraiser may therefore consider this the highest and best use when appraising the property's value.

Steps in the Appraisal Process

1. Discover the problem
2. Identify required work involved
3. Retrieve the necessary data
4. Choose necessary appraisal approaches to estimate value
5. Gather necessary data
6. Verify data for accuracy
7. Verify accuracy of comparable properties and its relations to the subject property
8. Estimate property value based on relative size, loocation and features
9. Make final property value estimation
10. Write the appraisal report

Appraisal Methods

There are many methods appraisers can use to calculate a property's value. The most common official appraisal methods are:

- Sales comparison approach
- Square foot method
- Cost approach
- Income capitalization approach
- Unit in place method

- Quantity survey method
- Index method

Sales Comparison Approach

The most common of all appraisal methods is the sales comparison approach. It is usually the starting point for any appraiser, as it provides a basis for the rest of an appraiser's calculations.

The **sales comparison approach** – also known as market data approach – involves comparing a subject property to comparable properties.

Comparables – or comps – are recently sold neighboring properties with similar features to a subject property. Similarities may include features such as property style, architecture, design, furnishings, ceiling height, age, flooring, number of bed and bathrooms, age, and/or views.

For a property to be considered a comparable, it must:

- *Be in close proximity to a subject property.* An appraiser should not use properties outside a one-mile radius or ones that are divided from a subject property by large intersections, boulevards, or thoroughfares. These factors can drastically affect property value.

- *Be sold.* Appraisers should only use sold properties as comparables. Although current listed properties may provide an idea of where property values are, they indicate the proposed price for which sellers want to sell their properties, not the actual property's value. Therefore, listed properties may be overpriced and not reflective of true values in the market.

- *Have been sold recently.* To get the most accurate estimate of a property, an appraiser should use the most recent comparables possible. This ensures that market conditions are similar, specifically in periods of high appreciation or depreciation. Ideally, an appraiser uses comparables that date back no more than three months; an appraiser should not use comps that date beyond six months unless there is no recent market activity or there are no available comparables in that time period.

Basing a property's value on what consumers have already purchased takes into account supply and demand. However, each property is exclusive in its own right and should therefore not be viewed as a mere duplicate, even if another property is of comparable size and quality.

The basis steps in the sales comparison approach include:

- *Finding comparables.* An appraiser must find 3-5 comparables in order to begin an appraisal.
- *Comparing the comparables.* An appraiser analyzes the key characteristics of the comparables to ensure that they are similar to the subject property.
- *Calculating the comparables' average cost per square foot.* An appraiser divides a comparable property's final sale price by its square footage. Square footage refers to the size of the home, not the lot size.
- *Estimating the subject property's value.* An appraiser multiplies the average cost per square foot of the comparables by a subject property's square footage. This provides an estimate of the subject property's value, plus or minus adjustments.
- *Identifying adjustments.* After calculating an initial value for a subject property, an appraiser will consider the more specific details of a property. For example, a property directly across from a school is likely a different price than a property on a more remote, quiet street, even if both properties exist within a half-mile radius. An appraiser may consider a subject property's age, amenities (i.e. pool, Jacuzzi, garage), and specific location. The appraiser will make adjustments to the estimated property value based on these details.

Although appraisers are experts in calculating property values, they are not neighborhood experts. An appraiser may not even be familiar with the area in which a subject property is located. Consequently, it is very common for appraisers to miscalculate property value assessments.

With the potential for discrepancies, it is recommended that a real estate professional assist an appraiser in the appraisal process.

Real estate agents are experts in specific neighborhoods and, as such, may be able to better explain the value of a property than an appraiser. An agent can provide specific details about the neighborhood, present accurate comparables, and put forth other data – such as current market activity – that may help an appraiser's assessment.

Square Foot Method

The square foot method is the standard starting point for most appraisals.

The **square foot method** considers a property's value based on the average cost per square foot in the neighborhood.

First, an appraiser determines the average price per square foot of recently sold comparables in the neighborhood. The appraiser then multiplies that price by a subject property's square footage. (In urban residential real estate, the square footage of the actual home is used, rather than the lot size.)

The sales comparison approach is very similar to the square foot method. The major difference between the two is that the square foot method almost exclusively focuses on price per square foot as the basis for an appraisal, where as the comparison approach uses the cost per square foot in addition to other factors including style, conformity of property, and others.

Cost Approach

The **cost approach** estimates the value of a subject property based on what it would cost to construct a similar property.

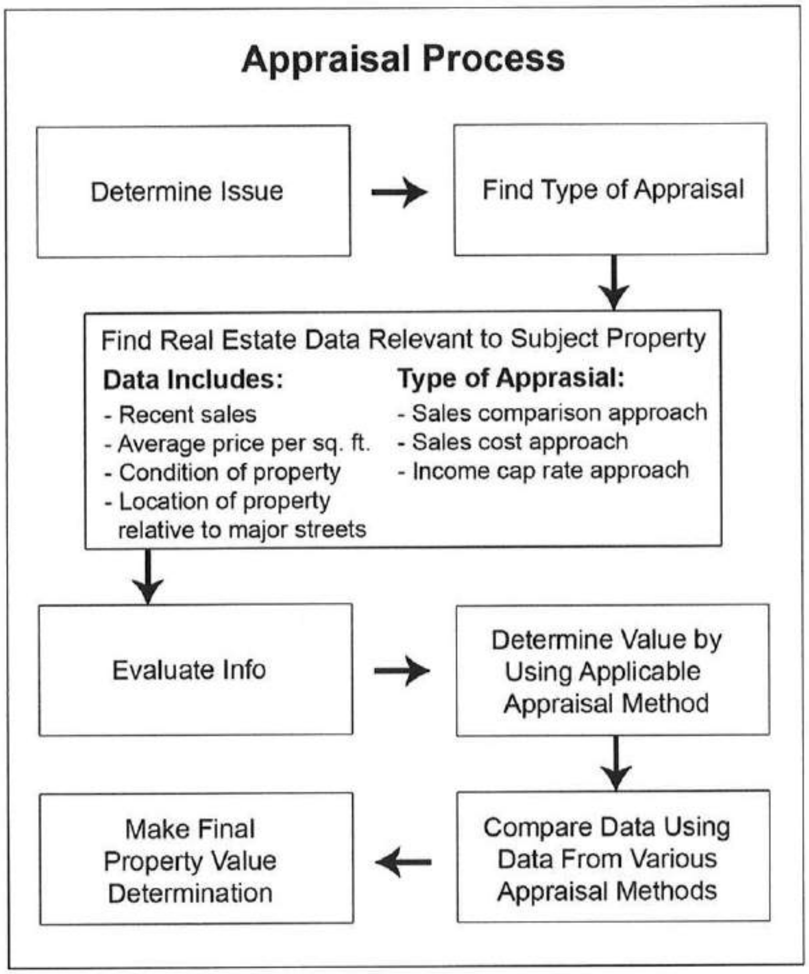
Reproduction cost refers to the cost of constructing an exact replica of a subject property. Directly reproducing a subject property may be impossible due to inflation or the original materials not being available. The solution is to construct a similar property.

Replacement cost refers to the cost of constructing a property with similar design, labor, and materials as a subject property. This includes the cost of land acquisition, labor, materials, and the depreciated value of the materials.

(Cost of Land Acquisition +
Cost of Labor +
Cost of Materials) –
Cost of Depreciated Value of Material
= **Property Value**

The cost approach method is typically used when there are no comparables available to compare to a subject property.

For example, if there is a sleek, modern-style house in a farm town filled with older, cottage-style homes, an appraiser may use the cost approach in order to determine the modern home's value.



Income Capitalization Approach

The income capitalization approach is used to value commercial real estate.

The **income capitalization approach** determines a property's value based on the income the property may generate through monthly rent collection. The **capitalization rate** – more commonly known as the cap rate – calculates a property's rate of return.

This rate is determined through the following formula:

Effective Gross Income –
Expenses
= **Net Operating Income**

Net Operating Income /
Property's Current Market Value
= **Capitalization Rate**

Potential gross income refers to the amount of income a property could generate with a 100% occupancy rate. **Market rent** refers to a property's estimated rent potential. That is, how much a property could potentially generate in rental payments.

Contract rent refers to the actual scheduled rent between a landlord and a tenant. A property's **effective gross income** is its potential gross income minus considerations, such as late payments, vacancy rates, and other factors that may alter the amount of rent collected by a landlord.

Put another way, potential gross income is the ideal scenario whereas the effective gross income is the realistic scenario.

A property's **net operating income** is its effective gross income minus all expenses. Expenses may include the cost of repairs, maintenance, property management, water and power, property taxes, and other ownership costs. For example, imagine a property owner wants to calculate her net operating income. She would do this by calculating the building's total income and then subtracting this from all expenses. This is typically the formula used to determine the value of a solid investment.

Interest paid on a loan is not considered an expense when calculating the cap rate.

A more simplified, rough estimate of a property's value is known as a **gross income multiplier**. This is obtained by dividing a property's gross annual rental income by its sale price.

A property's **site value** is the value of the land minus improvements.

Example

Question: A real estate investor named Eduardo wishes to purchase a property that can deliver a minimum 7% cap rate. Eduardo finds a property that is listed at $393,000 and collects $2,200/month in net rental income. Does the property meet Eduardo's 7% cap rate goal?

Answer: *The answer is determined by the following formula:*

Monthly rent collected ($2,200) x
12 months
= Annual rent collected ($26,400)

Annual rent collected ($26,400) /
Property's listing price ($393,000)
= Cap Rate x 100 (6.7%)

Therefore, the cap rate falls just short of Eduardo's 7% goal.

Unit in Place Method

The **unit in place method** uses the estimated cost of reproducing a property to determine the property's value.

This process involves calculating the costs of material and labor, including the recreation of foundational walls, plumbing, and other mechanical systems and installations.

Quantity Survey Method

The **quantity survey method** estimates a property's value based on the estimated cost of its construction. The cost of construction includes labor, materials, and any city coding and inspections. These costs are calculated individually and then added together.

The quantity survey method is less common than other appraisal methods as most appraisers do not have a vast working knowledge of construction.

Index Method

The least common of all appraisal methods is the index method. The **index method** involves estimating the cost of building a property or its current market value using various appraisal method's and multiplying it by its level of depreciation.

Appraisal Reports

The final step in the appraisal process involves an appraiser reconciling various calculations of a property's value.

Reconciliation refers to when an appraiser compares multiple property value estimates obtained through different appraisal methods. An appraiser will use three of the values calculated to provide the most accurate appraisal report.

There are three main types of appraisal reports:

- Summary report
- Restricted use report

- Self-contained report

Summary Report

A **summary report** provides a snapshot of the most important details of an appraisal. It is more detailed than a restricted use report, but less detailed than a self-contained report.

A summary report includes:

- The property's value
- The method used to derive the value
- The comparable properties used
- A summary of market conditions, opinions, and conclusions

Lenders, banks, and government agencies (i.e. Fannie Mae, Freddie Mac) commonly use summary reports.

Restricted Use Report

A **restricted use report** simply provides the estimated value of a property.

A restricted use report is cheaper and less time-consuming for an appraiser to generate. However, it contains very little information about the method used to calculate a property's value.

Lenders, banks, and government agencies will not accept restricted use reports; they are only intended to give buyers and sellers an understanding of a property's value without the complex details of a summary or self-contained report.

Self-Contained Report

A **self-contained report** is the most detailed and thorough appraisal report available. It provides all information pertinent to the appraisal process, including:

- The property's value
- The method used to derive the value
- The comparable properties used, including a summary of how each comparable was employed in the appraisal
- A description of the subject property
- A summary of market conditions, opinions, and conclusions

Self-contained reports are typically between 20 to 30 pages. Due to their detailed nature, lenders, banks, and government agencies ten to prefer these reports when determining loan qualifications.

Uniform Residential Appraisal Report

File #

The purpose of this summary appraisal report is to provide the lender/client with an accurate, and adequately supported, opinion of the market value of the subject property.

SUBJECT

Property Address | City | State | Zip Code

Borrower | Owner of Public Record | County

Legal Description

Assessor's Parcel # | Tax Year | R.E. Taxes $

Neighborhood Name | Map Reference | Census Tract

Occupant ☐ Owner ☐ Tenant ☐ Vacant | Special Assessments $ | ☐ PUD | HOA $ | ☐ per year ☐ per month

Property Rights Appraised ☐ Fee Simple ☐ Leasehold ☐ Other (describe)

Assignment Type ☐ Purchase Transaction ☐ Refinance Transaction ☐ Other (describe)

Lender/Client | Address

Is the subject property currently offered for sale or has it been offered for sale in the twelve months prior to the effective date of this appraisal? ☐ Yes ☐ No

Report data source(s) used, offering price(s), and date(s).

CONTRACT

I ☐ did ☐ did not analyze the contract for sale for the subject purchase transaction. Explain the results of the analysis of the contract for sale or why the analysis was not performed.

Contract Price $ | Date of Contract | Is the property seller the owner of public record? ☐ Yes ☐ No | Data Source(s)

Is there any financial assistance (loan charges, sale concessions, gift or downpayment assistance, etc.) to be paid by any party on behalf of the borrower? ☐ Yes ☐ No

If Yes, report the total dollar amount and describe the items to be paid.

NEIGHBORHOOD

Note: Race and the racial composition of the neighborhood are not appraisal factors.

Neighborhood Characteristics				**One-Unit Housing Trends**				**One-Unit Housing**		**Present Land Use %**	
Location	☐ Urban	☐ Suburban	☐ Rural	Property Values	☐ Increasing	☐ Stable	☐ Declining	PRICE	AGE	One-Unit	%
Built-Up	☐ Over 75%	☐ 25–75%	☐ Under 25%	Demand/Supply	☐ Shortage	☐ In Balance	☐ Over Supply	$ (000)	(yrs)	2-4 Unit	%
Growth	☐ Rapid	☐ Stable	☐ Slow	Marketing Time	☐ Under 3 mths	☐ 3–6 mths	☐ Over 6 mths	Low		Multi-Family	%
Neighborhood Boundaries								High		Commercial	%
								Pred.		Other	%

Neighborhood Description

Market Conditions (including support for the above conclusions)

SITE

Dimensions | Area | Shape | View

Specific Zoning Classification | Zoning Description

Zoning Compliance ☐ Legal ☐ Legal Nonconforming (Grandfathered Use) ☐ No Zoning ☐ Illegal (describe)

Is the highest and best use of the subject property as improved (or as proposed per plans and specifications) the present use? ☐ Yes ☐ No If No, describe

Utilities	**Public**	**Other (describe)**		**Public**	**Other (describe)**	**Off-site Improvements—Type**	**Public**	**Private**
Electricity	☐	☐	Water	☐	☐	Street	☐	☐
Gas	☐	☐	Sanitary Sewer	☐	☐	Alley	☐	☐

FEMA Special Flood Hazard Area ☐ Yes ☐ No | FEMA Flood Zone | FEMA Map # | FEMA Map Date

Are the utilities and off-site improvements typical for the market area? ☐ Yes ☐ No If No, describe

Are there any adverse site conditions or external factors (easements, encroachments, environmental conditions, land uses, etc.)? ☐ Yes ☐ No If Yes, describe

IMPROVEMENTS

General Description		**Foundation**		**Exterior Description**	**materials/condition**	**Interior**	**materials/condition**
Units ☐ One ☐ One with Accessory Unit		☐ Concrete Slab	☐ Crawl Space	Foundation Walls		Floors	
# of Stories		☐ Full Basement	☐ Partial Basement	Exterior Walls		Walls	
Type ☐ Det. ☐ Att. ☐ S-Det/End Unit		Basement Area	sq. ft.	Roof Surface		Trim/Finish	
☐ Existing ☐ Proposed ☐ Under Const.		Basement Finish	%	Gutters & Downspouts		Bath Floor	
Design (Style)		☐ Outside Entry/Exit	☐ Sump Pump	Window Type		Bath Wainscot	
Year Built		Evidence of ☐ Infestation		Storm Sash/Insulated		Car Storage	☐ None
Effective Age (Yrs)		☐ Dampness	☐ Settlement	Screens		☐ Driveway	# of Cars
Attic	☐ None	Heating ☐ FWA ☐ HWBB ☐ Radiant		Amenities	☐ Woodstove(s) #	Driveway Surface	
☐ Drop Stair	☐ Stairs	☐ Other	Fuel	☐ Fireplace(s) #	☐ Fence	☐ Garage	# of Cars
☐ Floor	☐ Scuttle	Cooling ☐ Central Air Conditioning		☐ Patio/Deck	☐ Porch	☐ Carport	# of Cars
☐ Finished	☐ Heated	☐ Individual	☐ Other	☐ Pool	☐ Other	☐ Att. ☐ Det.	☐ Built-in

Appliances ☐ Refrigerator ☐ Range/Oven ☐ Dishwasher ☐ Disposal ☐ Microwave ☐ Washer/Dryer ☐ Other (describe)

Finished area **above** grade contains: | Rooms | Bedrooms | Bath(s) | Square Feet of Gross Living Area Above Grade

Additional features (special energy efficient items, etc.)

Describe the condition of the property (including needed repairs, deterioration, renovations, remodeling, etc.).

Are there any physical deficiencies or adverse conditions that affect the livability, soundness, or structural integrity of the property? ☐ Yes ☐ No If Yes, describe

Does the property generally conform to the neighborhood (functional utility, style, condition, use, construction, etc.)? ☐ Yes ☐ No If No, describe

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There are comparable properties currently offered for sale in the subject neighborhood ranging in price from $ to $

There are comparable sales in the subject neighborhood within the past twelve months ranging in sale price from $ to $

SALES COMPARISON APPROACH

FEATURE	SUBJECT	COMPARABLE SALE # 1		COMPARABLE SALE # 2		COMPARABLE SALE # 3	
Address							
Proximity to Subject							
Sale Price	$		$		$		$
Sale Price/Gross Liv. Area	$ sq. ft.	$ sq. ft.		$ sq. ft.		$ sq. ft.	
Data Source(s)							
Verification Source(s)							
VALUE ADJUSTMENTS	DESCRIPTION	DESCRIPTION	+(-) $ Adjustment	DESCRIPTION	+(-) $ Adjustment	DESCRIPTION	+(-) $ Adjustment
Sale or Financing Concessions							
Date of Sale/Time							
Location							
Leasehold/Fee Simple							
Site							
View							
Design (Style)							
Quality of Construction							
Actual Age							
Condition							
Above Grade Room Count	Total Bdrms. Baths	Total Bdrms. Baths		Total Bdrms. Baths		Total Bdrms. Baths	
Gross Living Area	sq. ft.	sq. ft.		sq. ft.		sq. ft.	
Basement & Finished Rooms Below Grade							
Functional Utility							
Heating/Cooling							
Energy Efficient Items							
Garage/Carport							
Porch/Patio/Deck							
Net Adjustment (Total)		☐ + ☐ -	$	☐ + ☐ -	$	☐ + ☐ -	$
Adjusted Sale Price of Comparables		Net Adj. % Gross Adj. %	$	Net Adj. % Gross Adj. %	$	Net Adj. % Gross Adj. %	$

I ☐ did ☐ did not research the sale or transfer history of the subject property and comparable sales. If not, explain

My research ☐ did ☐ did not reveal any prior sales or transfers of the subject property for the three years prior to the effective date of this appraisal.

Data source(s)

My research ☐ did ☐ did not reveal any prior sales or transfers of the comparable sales for the year prior to the date of sale of the comparable sale.

Data source(s)

Report the results of the research and analysis of the prior sale or transfer history of the subject property and comparable sales (report additional prior sales on page 3).

ITEM	SUBJECT	COMPARABLE SALE # 1	COMPARABLE SALE # 2	COMPARABLE SALE # 3
Date of Prior Sale/Transfer				
Price of Prior Sale/Transfer				
Data Source(s)				
Effective Date of Data Source(s)				

Analysis of prior sale or transfer history of the subject property and comparable sales

Summary of Sales Comparison Approach

Indicated Value by Sales Comparison Approach $

RECONCILIATION

Indicated Value by: Sales Comparison Approach $ **Cost Approach (if developed) $** **Income Approach (if developed) $**

This appraisal is made ☐ "as is", ☐ subject to completion per plans and specifications on the basis of a hypothetical condition that the improvements have been completed, ☐ subject to the following repairs or alterations on the basis of a hypothetical condition that the repairs or alterations have been completed, or ☐ subject to the following required inspection based on the extraordinary assumption that the condition or deficiency does not require alteration or repair:

Based on a complete visual inspection of the interior and exterior areas of the subject property, defined scope of work, statement of assumptions and limiting conditions, and appraiser's certification, my (our) opinion of the market value, as defined, of the real property that is the subject of this report is $, as of , which is the date of inspection and the effective date of this appraisal.

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ADDITIONAL COMMENTS

COST APPROACH

COST APPROACH TO VALUE (not required by Fannie Mae)

Provide adequate information for the lender/client to replicate the below cost figures and calculations.

Support for the opinion of site value (summary of comparable land sales or other methods for estimating site value)

ESTIMATED ☐ REPRODUCTION OR ☐ REPLACEMENT COST NEW	OPINION OF SITE VALUE .... = $
Source of cost data	Dwelling Sq. Ft. @ $ .... =$
Quality rating from cost service Effective date of cost data	Sq. Ft. @ $ .... =$
Comments on Cost Approach (gross living area calculations, depreciation, etc.)	
	Garage/Carport Sq. Ft. @ $ .... =$
	Total Estimate of Cost-New .... = $
	Less Physical | Functional | External
	Depreciation =$( )
	Depreciated Cost of Improvements .... =$
	"As-is" Value of Site Improvements .... =$
Estimated Remaining Economic Life (HUD and VA only) Years	Indicated Value By Cost Approach .... =$

INCOME

INCOME APPROACH TO VALUE (not required by Fannie Mae)

Estimated Monthly Market Rent $ X Gross Rent Multiplier = $ Indicated Value by Income Approach

Summary of Income Approach (including support for market rent and GRM)

PUD INFORMATION

PROJECT INFORMATION FOR PUDs (if applicable)

Is the developer/builder in control of the Homeowners' Association (HOA)? ☐ Yes ☐ No Unit type(s) ☐ Detached ☐ Attached

Provide the following information for PUDs ONLY if the developer/builder is in control of the HOA and the subject property is an attached dwelling unit.

Legal name of project

Total number of phases Total number of units Total number of units sold

Total number of units rented Total number of units for sale Data source(s)

Was the project created by the conversion of an existing building(s) into a PUD? ☐ Yes ☐ No If Yes, date of conversion

Does the project contain any multi-dwelling units? ☐ Yes ☐ No Data source(s)

Are the units, common elements, and recreation facilities complete? ☐ Yes ☐ No If No, describe the status of completion.

Are the common elements leased to or by the Homeowners' Association? ☐ Yes ☐ No If Yes, describe the rental terms and options.

Describe common elements and recreational facilities

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This report form is designed to report an appraisal of a one-unit property or a one-unit property with an accessory unit; including a unit in a planned unit development (PUD). This report form is not designed to report an appraisal of a manufactured home or a unit in a condominium or cooperative project.

This appraisal report is subject to the following scope of work, intended use, intended user, definition of market value, statement of assumptions and limiting conditions, and certifications. Modifications, additions, or deletions to the intended use, intended user, definition of market value, or assumptions and limiting conditions are not permitted. The appraiser may expand the scope of work to include any additional research or analysis necessary based on the complexity of this appraisal assignment. Modifications or deletions to the certifications are also not permitted. However, additional certifications that do not constitute material alterations to this appraisal report, such as those required by law or those related to the appraiser's continuing education or membership in an appraisal organization, are permitted.

SCOPE OF WORK: The scope of work for this appraisal is defined by the complexity of this appraisal assignment and the reporting requirements of this appraisal report form, including the following definition of market value, statement of assumptions and limiting conditions, and certifications. The appraiser must, at a minimum: (1) perform a complete visual inspection of the interior and exterior areas of the subject property, (2) inspect the neighborhood, (3) inspect each of the comparable sales from at least the street, (4) research, verify, and analyze data from reliable public and/or private sources, and (5) report his or her analysis, opinions, and conclusions in this appraisal report.

INTENDED USE: The intended use of this appraisal report is for the lender/client to evaluate the property that is the subject of this appraisal for a mortgage finance transaction.

INTENDED USER: The intended user of this appraisal report is the lender/client.

DEFINITION OF MARKET VALUE: The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby: (1) buyer and seller are typically motivated; (2) both parties are well informed or well advised, and each acting in what he or she considers his or her own best interest; (3) a reasonable time is allowed for exposure in the open market; (4) payment is made in terms of cash in U. S. dollars or in terms of financial arrangements comparable thereto; and (5) the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions* granted by anyone associated with the sale.

*Adjustments to the comparables must be made for special or creative financing or sales concessions. No adjustments are necessary for those costs which are normally paid by sellers as a result of tradition or law in a market area; these costs are readily identifiable since the seller pays these costs in virtually all sales transactions. Special or creative financing adjustments can be made to the comparable property by comparisons to financing terms offered by a third party institutional lender that is not already involved in the property or transaction. Any adjustment should not be calculated on a mechanical dollar for dollar cost of the financing or concession but the dollar amount of any adjustment should approximate the market's reaction to the financing or concessions based on the appraiser's judgment.

STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS: The appraiser's certification in this report is subject to the following assumptions and limiting conditions:

1. The appraiser will not be responsible for matters of a legal nature that affect either the property being appraised or the title to it, except for information that he or she became aware of during the research involved in performing this appraisal. The appraiser assumes that the title is good and marketable and will not render any opinions about the title.

2. The appraiser has provided a sketch in this appraisal report to show the approximate dimensions of the improvements. The sketch is included only to assist the reader in visualizing the property and understanding the appraiser's determination of its size.

3. The appraiser has examined the available flood maps that are provided by the Federal Emergency Management Agency (or other data sources) and has noted in this appraisal report whether any portion of the subject site is located in an identified Special Flood Hazard Area. Because the appraiser is not a surveyor, he or she makes no guarantees, express or implied, regarding this determination.

4. The appraiser will not give testimony or appear in court because he or she made an appraisal of the property in question, unless specific arrangements to do so have been made beforehand, or as otherwise required by law.

5. The appraiser has noted in this appraisal report any adverse conditions (such as needed repairs, deterioration, the presence of hazardous wastes, toxic substances, etc.) observed during the inspection of the subject property or that he or she became aware of during the research involved in performing this appraisal. Unless otherwise stated in this appraisal report, the appraiser has no knowledge of any hidden or unapparent physical deficiencies or adverse conditions of the property (such as, but not limited to, needed repairs, deterioration, the presence of hazardous wastes, toxic substances, adverse environmental conditions, etc.) that would make the property less valuable, and has assumed that there are no such conditions and makes no guarantees or warranties, express or implied. The appraiser will not be responsible for any such conditions that do exist or for any engineering or testing that might be required to discover whether such conditions exist. Because the appraiser is not an expert in the field of environmental hazards, this appraisal report must not be considered as an environmental assessment of the property.

6. The appraiser has based his or her appraisal report and valuation conclusion for an appraisal that is subject to satisfactory completion, repairs, or alterations on the assumption that the completion, repairs, or alterations of the subject property will be performed in a professional manner.

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APPRAISER'S CERTIFICATION: The Appraiser certifies and agrees that:

1. I have, at a minimum, developed and reported this appraisal in accordance with the scope of work requirements stated in this appraisal report.

2. I performed a complete visual inspection of the interior and exterior areas of the subject property. I reported the condition of the improvements in factual, specific terms. I identified and reported the physical deficiencies that could affect the livability, soundness, or structural integrity of the property.

3. I performed this appraisal in accordance with the requirements of the Uniform Standards of Professional Appraisal Practice that were adopted and promulgated by the Appraisal Standards Board of The Appraisal Foundation and that were in place at the time this appraisal report was prepared.

4. I developed my opinion of the market value of the real property that is the subject of this report based on the sales comparison approach to value. I have adequate comparable market data to develop a reliable sales comparison approach for this appraisal assignment. I further certify that I considered the cost and income approaches to value but did not develop them, unless otherwise indicated in this report.

5. I researched, verified, analyzed, and reported on any current agreement for sale for the subject property, any offering for sale of the subject property in the twelve months prior to the effective date of this appraisal, and the prior sales of the subject property for a minimum of three years prior to the effective date of this appraisal, unless otherwise indicated in this report.

6. I researched, verified, analyzed, and reported on the prior sales of the comparable sales for a minimum of one year prior to the date of sale of the comparable sale, unless otherwise indicated in this report.

7. I selected and used comparable sales that are locationally, physically, and functionally the most similar to the subject property.

8. I have not used comparable sales that were the result of combining a land sale with the contract purchase price of a home that has been built or will be built on the land.

9. I have reported adjustments to the comparable sales that reflect the market's reaction to the differences between the subject property and the comparable sales.

10. I verified, from a disinterested source, all information in this report that was provided by parties who have a financial interest in the sale or financing of the subject property.

11. I have knowledge and experience in appraising this type of property in this market area.

12. I am aware of, and have access to, the necessary and appropriate public and private data sources, such as multiple listing services, tax assessment records, public land records and other such data sources for the area in which the property is located.

13. I obtained the information, estimates, and opinions furnished by other parties and expressed in this appraisal report from reliable sources that I believe to be true and correct.

14. I have taken into consideration the factors that have an impact on value with respect to the subject neighborhood, subject property, and the proximity of the subject property to adverse influences in the development of my opinion of market value. I have noted in this appraisal report any adverse conditions (such as, but not limited to, needed repairs, deterioration, the presence of hazardous wastes, toxic substances, adverse environmental conditions, etc.) observed during the inspection of the subject property or that I became aware of during the research involved in performing this appraisal. I have considered these adverse conditions in my analysis of the property value, and have reported on the effect of the conditions on the value and marketability of the subject property.

15. I have not knowingly withheld any significant information from this appraisal report and, to the best of my knowledge, all statements and information in this appraisal report are true and correct.

16. I stated in this appraisal report my own personal, unbiased, and professional analysis, opinions, and conclusions, which are subject only to the assumptions and limiting conditions in this appraisal report.

17. I have no present or prospective interest in the property that is the subject of this report, and I have no present or prospective personal interest or bias with respect to the participants in the transaction. I did not base, either partially or completely, my analysis and/or opinion of market value in this appraisal report on the race, color, religion, sex, age, marital status, handicap, familial status, or national origin of either the prospective owners or occupants of the subject property or of the present owners or occupants of the properties in the vicinity of the subject property or on any other basis prohibited by law.

18. My employment and/or compensation for performing this appraisal or any future or anticipated appraisals was not conditioned on any agreement or understanding, written or otherwise, that I would report (or present analysis supporting) a predetermined specific value, a predetermined minimum value, a range or direction in value, a value that favors the cause of any party, or the attainment of a specific result or occurrence of a specific subsequent event (such as approval of a pending mortgage loan application).

19. I personally prepared all conclusions and opinions about the real estate that were set forth in this appraisal report. If I relied on significant real property appraisal assistance from any individual or individuals in the performance of this appraisal or the preparation of this appraisal report, I have named such individual(s) and disclosed the specific tasks performed in this appraisal report. I certify that any individual so named is qualified to perform the tasks. I have not authorized anyone to make a change to any item in this appraisal report; therefore, any change made to this appraisal is unauthorized and I will take no responsibility for it.

20. I identified the lender/client in this appraisal report who is the individual, organization, or agent for the organization that ordered and will receive this appraisal report.

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21. The lender/client may disclose or distribute this appraisal report to: the borrower; another lender at the request of the borrower; the mortgagee or its successors and assigns; mortgage insurers; government sponsored enterprises; other secondary market participants; data collection or reporting services; professional appraisal organizations; any department, agency, or instrumentality of the United States; and any state, the District of Columbia, or other jurisdictions; without having to obtain the appraiser's or supervisory appraiser's (if applicable) consent. Such consent must be obtained before this appraisal report may be disclosed or distributed to any other party (including, but not limited to, the public through advertising, public relations, news, sales, or other media).

22. I am aware that any disclosure or distribution of this appraisal report by me or the lender/client may be subject to certain laws and regulations. Further, I am also subject to the provisions of the Uniform Standards of Professional Appraisal Practice that pertain to disclosure or distribution by me.

23. The borrower, another lender at the request of the borrower, the mortgagee or its successors and assigns, mortgage insurers, government sponsored enterprises, and other secondary market participants may rely on this appraisal report as part of any mortgage finance transaction that involves any one or more of these parties.

24. If this appraisal report was transmitted as an "electronic record" containing my "electronic signature," as those terms are defined in applicable federal and/or state laws (excluding audio and video recordings), or a facsimile transmission of this appraisal report containing a copy or representation of my signature, the appraisal report shall be as effective, enforceable and valid as if a paper version of this appraisal report were delivered containing my original hand written signature.

25. Any intentional or negligent misrepresentation(s) contained in this appraisal report may result in civil liability and/or criminal penalties including, but not limited to, fine or imprisonment or both under the provisions of Title 18, United States Code, Section 1001, et seq., or similar state laws.

SUPERVISORY APPRAISER'S CERTIFICATION: The Supervisory Appraiser certifies and agrees that:

1. I directly supervised the appraiser for this appraisal assignment, have read the appraisal report, and agree with the appraiser's analysis, opinions, statements, conclusions, and the appraiser's certification.

2. I accept full responsibility for the contents of this appraisal report including, but not limited to, the appraiser's analysis, opinions, statements, conclusions, and the appraiser's certification.

3. The appraiser identified in this appraisal report is either a sub-contractor or an employee of the supervisory appraiser (or the appraisal firm), is qualified to perform this appraisal, and is acceptable to perform this appraisal under the applicable state law.

4. This appraisal report complies with the Uniform Standards of Professional Appraisal Practice that were adopted and promulgated by the Appraisal Standards Board of The Appraisal Foundation and that were in place at the time this appraisal report was prepared.

5. If this appraisal report was transmitted as an "electronic record" containing my "electronic signature," as those terms are defined in applicable federal and/or state laws (excluding audio and video recordings), or a facsimile transmission of this appraisal report containing a copy or representation of my signature, the appraisal report shall be as effective, enforceable and valid as if a paper version of this appraisal report were delivered containing my original hand written signature.

APPRAISER

Signature ____________________
Name ____________________
Company Name ____________________
Company Address ____________________
____
Telephone Number ____________________
Email Address ____________________
Date of Signature and Report ____________________
Effective Date of Appraisal ____________________
State Certification # ____________________
or State License # ____________________
or Other (describe) ____________ State # ________
State ____________________
Expiration Date of Certification or License ____________

ADDRESS OF PROPERTY APPRAISED
____
____

APPRAISED VALUE OF SUBJECT PROPERTY $ __________

LENDER/CLIENT
Name ____________________
Company Name ____________________
Company Address ____________________
____
Email Address ____________________

SUPERVISORY APPRAISER (ONLY IF REQUIRED)

Signature ____________________
Name ____________________
Company Name ____________________
Company Address ____________________
____
Telephone Number ____________________
Email Address ____________________
Date of Signature ____________________
State Certification # ____________________
or State License # ____________________
State ____________________
Expiration Date of Certification or License ____________

SUBJECT PROPERTY

☐ Did not inspect subject property
☐ Did inspect exterior of subject property from street
Date of Inspection ____________________
☐ Did inspect interior and exterior of subject property
Date of Inspection ____________________

COMPARABLE SALES

☐ Did not inspect exterior of comparable sales from street
☐ Did inspect exterior of comparable sales from street
Date of Inspection ____________________

Broker's Price Opinion (BPO)

Alternatively, a lender may choose to use a broker's price opinion. A **broker's price opinion (BPO)** is a process used by a sales agent to determine a property's estimated value and best selling price. A BPO is commonly used in situations where a lender believes a full appraisal is unnecessary.

A BPO involves a broker researching recently sold properties and using a combination of the various appraisal techniques, the age, quality, and conformity of the property and using the average price per square foot to determine how much the value of the property is.

Oftentimes broker price opinions are used in financing when the buyer clearly qualifies for the mortgage and the lender does not want to require a borrower to pay for an appraisal when the value is clearly enough to qualify the borrower.