Real World Appraisal II
Appraisals, Agents & the Real World

Robert C Oglesby, SRA, AI-RRS
AGENDA

The licensee will identify the ethical standards and behavior requirements for the licensed and certified appraiser: understand the required processes for residential transactions regarding valuations working within Federal and institutional guidelines; gain knowledge on how to assist with the valuation process and inform their clients.

1. Uniform Appraisal Dataset, Sales Grid Refresher
2. Identifying the Subject Property
3. Neighborhood / Competitive Market for the Subject
4. Selection of Comparables
5. Comparable Properties: Case Studies
6. Apply Adjustments to Comparable Properties
7. Sample Appraisal, Sales Comparison Approach to Value, Reconciliation
8. Appraiser Toolkit
9. References, Information

Robert C Oglesby, SRA, AI-RRS
UNIFORM APPRAISAL DATASET & SALES GRID REFRESHER

A. Condition, Quality Ratings Review
B. FNMA’s Collateral Underwriter
C. Sample Sales Grid
D. USPAP refresher

Robert C Oglesby, SRA, AI-RRS
Condition, Quality Ratings Review

UAD Definitions from Fannie UAD Appendices

Q1 - Dwelling with this quality rating are usually unique structures that are individually designed by an architect for a specified user. Such residences typically are constructed from detailed architectural plans and specifications and feature an exceptionally high level of craftsmanship and exceptionally high-grade materials throughout the interior and exterior of the structure. The design features exceptionally high-quality exterior finishes and ornamentation, and exceptionally high-quality interior finishes. The workmanship, materials, and finishes throughout the dwelling are of exceptionally high quality.

Q2 - Dwelling with this quality rating are often designed and constructed for an individual property owner's site. However, dwellings in this quality grade are also found in high-quality tract developments featuring residences constructed from individual plans or from highly modified or upgraded plans. The design features detailed, high-quality exterior ornamentation, high-quality interior finishes, and detail. The workmanship, materials, and finish throughout the dwelling are of exceptional quality and value.

Q3 - Dwelling with this quality rating are through and through residences of high quality built from individual or readily available designed plans in show-standard residential tract developments featuring residences constructed from individual plans or from highly modified or upgraded plans. The design features detailed, high-quality exterior ornamentation, high-quality interior finishes, and detail. The workmanship, materials, and finish throughout the dwelling are of exceptional quality and value.

Q4 - Dwelling with this quality rating were designed for an individual property owner's site. However, dwellings in this quality grade are also found in high-quality tract developments featuring residences constructed from individual plans or from highly modified or upgraded plans. The design features detailed, high-quality exterior ornamentation, high-quality interior finishes, and detail. The workmanship, materials, and finish throughout the dwelling are of exceptional quality and value.

Q5 - Dwelling with this quality rating are unique structures that are individually designed by an architect for a specified user. Such residences typically are constructed from detailed architectural plans and specifications and feature an exceptionally high level of craftsmanship and exceptionally high-grade materials throughout the interior and exterior of the structure. The design features exceptionally high-quality exterior finishes and ornamentation, and exceptionally high-quality interior finishes. The workmanship, materials, and finishes throughout the dwelling are of exceptionally high quality.

Ratings and Definitions

C1 - The improvements have been very recently constructed and have not previously been occupied. The site structure and all components are new and the dwelling features no physical depreciation.

C2 - The improvements feature deferred maintenance and some physical and material deterioration due to normal wear and tear. Some components, but not every major building component, may be updated or recently rehabilitated. The structure has been well maintained.

C3 - The improvements feature some minor deferred maintenance and physical and material deterioration due to normal wear and tear. The dwelling has been adequately maintained and requires only minimal repair to building components, mechanical systems, and interior finishes. All major building components have been adequately maintained and are functionally adequate.

C4 - The improvements have substantial damage or deferred maintenance with deficiencies or defects that are severe enough to affect the safety, soundness, or structural integrity of the improvements. The improvements are in need of substantial repairs and rehabilitation, including but not limited to major components.
Condition, Quality Ratings Review
Condition & Quality: How effective are they in the subject’s competitive market?

<table>
<thead>
<tr>
<th>Marshall &amp; Swift Quality Ratings</th>
<th>Low</th>
<th>Fair</th>
<th>Average</th>
<th>Good</th>
<th>Very Good</th>
<th>Excellent</th>
</tr>
</thead>
<tbody>
<tr>
<td>UAD Quality Ratings</td>
<td>Q6</td>
<td>Q5</td>
<td>Q4</td>
<td>Q3</td>
<td>Q2</td>
<td>Q1</td>
</tr>
</tbody>
</table>

- Quality of construction resources
- How does an appraiser analyze
- Are appraisers different
- What to look for to support opinion of quality rating
The improvements feature no deferred maintenance, little or no physical depreciation, and require no repairs. Virtually all building components are new or have been recently repaired, refinished, or rehabilitated. All outdated components and finishes have been updated and/or replaced with components that meet current standards. Dwellings in this category either are almost new or have been recently completely renovated and are similar in condition to new construction.
Condition, Quality Ratings Review
Condition & Quality: How effective are they in the subject’s competitive market?

The improvements are well maintained and feature limited physical depreciation due to normal wear and tear. Some components, but not every major building component, may be updated or recently rehabilitated. The structure has been well maintained.
Condition, Quality Ratings Review

Condition & Quality: How effective are they in the subject’s competitive market?

The improvements feature some minor deferred maintenance and physical deterioration due to normal wear and tear. The dwelling has been adequately maintained and requires only minimal repairs to building components/mechanical systems and cosmetic repairs. All major building components have been adequately maintained and are functionally adequate.
FNMA’s Collateral Underwriter (CU)

Collateral Underwriter is a proprietary appraisal review application developed by Fannie Mae that performs an automated analysis of appraisals submitted to the Uniform Collateral Data Portal.

Robert C Oglesby, SRA, AI-RRS
FNMA’s Collateral Underwriter (CU)

Collateral Underwriter is a proprietary appraisal review application developed by Fannie Mae that performs an automated analysis of appraisals submitted to the Uniform Collateral Data Portal.

According to FNMA FAQs:

“CU provides a numerical risk score from 1.0 to 5.0, with 1 indicating the lowest risk and 5 indicating the highest risk. Risk flags and messages identify risk factors and specific aspects of the appraisal that may require further attention. “

“Beginning Dec. 10, 2016, Fannie Mae started offering enforcement relief on representations and warranties related to the property value for certain loan casefiles that are secured by a one-unit detached, attached, or condominium property. The enforcement relief is offered on loan casefiles that receive an Approve/Eligible recommendation from DU when the appraisal received a CU Risk Score of 2.5 or below. “
FNMA’s Collateral Underwriter (CU)

Collateral Underwriter is a proprietary appraisal review application developed by Fannie Mae that performs an automated analysis of appraisals submitted to the Uniform Collateral Data Portal.

Below are two different appraisals on different properties in CU. On the left, the appraiser’s comps are 3 to 6 miles away. On the right, the appraiser’s comps are all within 1 mile of the subject.

Which appraisal will have the lower CU score?
FNMA’s Collateral Underwriter

Collateral Underwriter is a proprietary appraisal review application developed by Fannie Mae that performs an automated analysis of appraisals submitted to the Uniform Collateral Data Portal.

Below are two different appraisals on different properties in CU. On the left, the appraiser’s comps are 3 to 6 miles away. On the right, the appraiser’s comps are all within 1 mile of the subject.

SUMMARY: Relying on an arbitrary distance guideline, the appraisal on the left appears to be high-risk while the one on the right appears low-risk. However, CU would suggest the opposite is actually true.

The one on the left has the lower CU score!
**FNMA’s Collateral Underwriter (CU)**

Collateral Underwriter is a proprietary appraisal review application developed by Fannie Mae that performs an automated analysis of appraisals submitted to the Uniform Collateral Data Portal.

<table>
<thead>
<tr>
<th>Fannie Mae Proprietary Edit Findings</th>
<th>Description</th>
<th>Rating</th>
<th>N/A</th>
<th>N/A</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>FNMA0001</td>
<td>Appraisal</td>
<td>Warning</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>FNMA0002</td>
<td>Appraisal</td>
<td>Warning</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>FNMA0419</td>
<td>Comparable 1</td>
<td>Warning</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>FNMA0424</td>
<td>Comparable 4</td>
<td>Warning</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>FNMA0514</td>
<td>Comparable 4</td>
<td>Warning</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>FNMA0832</td>
<td>Comparable 2</td>
<td>Warning</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>FNMA0032</td>
<td>Comparable 4</td>
<td>Warning</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>FNMA0040</td>
<td>Appraisal</td>
<td>Warning</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>FNMA0707</td>
<td>Appraisal</td>
<td>Warning</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>FNMA1004</td>
<td>Appraisal</td>
<td>Warning</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

**C** = Model-Selected Comparable

Robert C Oglesby, SRA, AI-RRS
# Sample Sales Grid

**Uniform Residential Appraisal Report**

- **Address**: Santa Barbara, CA 93111
- **Comparable Sale NO. 1**
  - **Sale Price**: $1,225,000
  - **Sale Price/Sq. Ft.**: $574.83 sq. ft.
  - **Data Source**: DOM 7
- **Comparable Sale NO. 2**
  - **Sale Price**: $1,197,000
  - **Sale Price/Sq. Ft.**: $574.93 sq. ft.
  - **Data Source**: DOM 117
- **Comparable Sale NO. 3**
  - **Sale Price**: $1,195,000
  - **Sale Price/Sq. Ft.**: $409.00 sq. ft.
  - **Data Source**: DOM 36

### Sample Grid

<table>
<thead>
<tr>
<th>Feature</th>
<th>Subject</th>
<th>Comparable Sale NO. 1</th>
<th>Comparable Sale NO. 2</th>
<th>Comparable Sale NO. 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Address</td>
<td>Santa Barbara, CA 93111</td>
<td>Goleta, CA 93111</td>
<td>Santa Barbara, CA 93111</td>
<td>Santa Barbara, CA 93111</td>
</tr>
<tr>
<td>Proximity to Subject</td>
<td>1.76 miles SW</td>
<td>1.10 miles NW</td>
<td>0.19 miles NW</td>
<td>0.19 miles NW</td>
</tr>
<tr>
<td>Source of Data</td>
<td>DOM 7</td>
<td>DOM 117</td>
<td>DOM 36</td>
<td>DOM 36</td>
</tr>
</tbody>
</table>

### Value Adjustments

- **Adjustment**: -0.8%
- **Adjusted Sale Price**: $22,440

---

**AppraisalTek**

Trust, Experience, Knowledge

**Appraisal Institute**

SRA

Robert C Oglesby, SRA, AI-RRS
IDENTIFYING THE SUBJECT PROPERTY

A. Identifying Relevant Subject Characteristics
B. Upgrades, Condition, Quality Ratings
C. Design (https://www.architecturalsdesigns.com/)
D. Plans/Specs & Permits
E. Permits for Additions/Improvement
Identifying Relevant Subject Characteristics

Standards Rule 1-2(e): An appraiser must identify the characteristics of the property that are relevant to the type and definition of value and intended use of the appraisal, including:
(i) its location and physical, legal, and economic attributes
(ii) the real property interest to be valued;
(iii) any personal property, trade fixtures, or tangible items that are not real property but are included in the appraisal;
(iv) any known easements, restrictions, encumbrances, leases, reservations, covenants, contracts, declarations, special assessments, ordinances, or other items of similar nature; and
(v) whether the subject property is a fractional interest, physical segment or partial holding.

Relevant characteristics are significant attributes, features or traits of the subject property. There could be many different characteristics of a property. To develop a credible report, it is the appraiser’s responsibility to determine which are relevant to a specific assignment.
Upgrades, Condition, Quality Ratings
Design
(https://www.architecturaldesigns.com/)
Locational Attributes
Property Rights, Easements, Deed Restrictions or Licenses

It is necessary to know what the subject’s locational attributes are and who will, or will not, be attracted to it

- **Property rights**: Fee Simple (minus mineral rights), Leased Fee, Leasehold
- **Easements**: An easement across the site that may impact utility or further development
- **Deed Restrictions**: Limitations on the use of a property
- **Licenses**: A license gives the permission to an individual or entity to use real property for a specific purpose. It does not transfer, it is personal to the licensee.

**DEED RESTRICTIONS**: Age Restrictions / No Tenants / Livestock / Use of Home as Business

**LICENSE**: Home Health Care / Home Based Business / Other Income Potential

Robert C Oglesby, SRA, AI-RRS
Plans/Specs & Permits
Measuring Techniques: ANSI & American Standard

American Measurement Standard

This standard was developed through a comprehensive investigation process that included organizations and individuals affected by the existence and use of such a standard, and is exclusively for the measurement and calculation of square footage in a single-family dwelling. It is a voluntary guideline presented for use in single-family housing only. The methodology enclosed represents a standard of measurement that has been utilized among professional real estate practitioners for over a century. Throughout the real estate, appraisal, mortgage, architectural, building, insurance, and other professionally licensed and regulated organizations, this method of measurement is practiced and accepted. It is honored and currently utilized around the world.

The enclosed standard allows for the reconciliation of differences in current methods of determining square footage. The procedures and techniques described herein are an accumulation of research conducted by professional Real estate, appraisers and home builders, and are the same principles used by leading national designers and architects. This standard represents the foremost method of measurement in residential square footage which has been established and practiced for well over 100 years. This standard helps to promote and protect the public’s interest, and provides a specific language which aids in the communication between the real estate, appraisal, and mortgage industries.

Robert C Oglesby, SRA, AI-RRS
Only finished above-grade areas can be used in calculating and reporting of above-grade room count and square footage for the gross living area. Fannie Mae considers a level to be below-grade if any portion of it is below-grade, regardless of the quality of its finish or the window area of any room. Therefore, a walk-out basement with finished rooms would not be included in the above-grade room count. Rooms that are not included in the above-grade room count may add substantially to the value of a property, particularly when the quality of the finish is high. For that reason, the appraiser should report the basement or other partially below-grade areas separately and make appropriate adjustments for them on the Basement & Finished Rooms Below-Grade line in the Sales Comparison Approach adjustment grid.

When any part of a finished level is below grade, the Appraiser must report all of that level as below-grade finished area, and report that space on a different line in the appraisal report, unless the market considers it to be Partially Below-Grade Habitable Space.

**Partially Below-Grade Habitable Space Definition**

Partially Below-Grade Habitable Space refers to living area constructed partially below grade, but has the full utility of GLA.

**Required Analysis and Reporting**

The Appraiser must report the design and measurements of the subject, the market acceptance or preference, how the levels and areas of the dwelling are being calculated and compared, and the effect that this has on the analysis. Regardless of the description of the rooms, bedrooms or baths as above grade or below grade, the Appraiser must analyze all components of the subject Property in the valuation process.
Plans/Specs & Permits
Knowing the Correct Liveable Area

Dimensions are Approximate (Interior and Exterior)

Addition - Not Permitted "Visually"
Completed In A Workmanlike Manner

1 Car Carport

Driveway

County Records - 1359 Sq. Ft. - In Correct
See Photo & "AppraisalTek Video Link" for Additional Details

Robert C Oglesby, SRA, AI-RRS
Permits for Additions/Improvements
Agency Requirements

According to HUD’s Handbook 4000.1:

“Additions and Converted Space
The Appraiser must treat room additions and garage conversions as part of the GLA of the dwelling, provided that the addition or conversion space:

- is accessible from the interior of the main dwelling in a functional manner;
- has a permanent and sufficient heat source; and
- was built in keeping with the design, appeal, and quality of construction of the main dwelling.

Room additions and garage conversions that do not meet the criteria listed above are to be addressed as a separate line item in the sales grid, not in the GLA. The Appraiser must address the impact of inferior quality garage conversions and room additions on marketability as well as Contributory Value, if any.”


Robert C Oglesby, SRA, AI-RRS
Permits for Additions/Improvements
Agency Requirements

According to the FNMA Selling Guide:

“Additions without Permits
If the appraiser identifies an addition(s) that does not have the required permit, the appraiser must comment on the quality and appearance of the work and its impact, if any, on the market value of the subject property. “

Permits for Additions/Improvements
Work Sheet #1

You are asked to appraise a single unit property in Mesa, Arizona.

You are told the property has multiple additions and the seller is not confident on the actual livable area.

Based on the discussion today, what should be considered and/or analyzed?
Permits for Additions/Improvements
Work Sheet #1 continued

- Analyze functional flow of additions
- Analyze heating and cooling
- Analyze workmanship
- Would the competitive market see the additions as Gross Living Area
- Are the areas permitted
- Analyze GSE requirements
- Analyze ANSI Standards
- What is expected in the subject’s market for Gross Living Area
NEIGHBORHOOD/COMPETITIVE MARKET FOR SUBJECT

A. Identify Neighborhood
B. Neighborhood Life Cycle
C. Supply & Demand, Market Conditions
D. Highest & Best Use
Identify Neighborhood & Competitive Market

The appraiser must know the significant attributes for the subject property; generally, they are tied to location. Since we cannot move real estate, the property’s surroundings are either an asset or a deterrent and cannot be changed (by the owner of the subject).

How to determine the market area of the subject, usually within the neighborhood (but may expand outside neighborhood).

**Neighborhood**
- Generally an area of complimentary land uses
- These land uses generally function to support the neighborhood
- Contain many land uses that function together

**Market Area**
- A geographic or locational depiction of a specific category of real estate, may be within the neighborhood or may expand outside the neighborhood
- Where similar properties compete within the mind of the potential buyer

Robert C Oglesby, SRA, AI-RRS
Identify Neighborhood
Neighborhood Life Cycle
The life of a neighborhood is often cyclical and is affected by many factors

- **Growth**
  - Expansion
  - Declining vacancy
  - Maybe short-lived or last for years
  - Growth continues as the neighborhood is perceived as good value.
  - Growth may stop, demand for new construction diminishes, supply is restrained due to cost, etc.
  - Activity is usually heavy

- **Stability**
  - No longer profitable to build, when other neighborhoods have become better values or fully developed.
  - Absence of growth or decline
  - May last for a period of time
  - Homes are being maintained, but aging.

- **Decline**
  - Begins when a neighborhood can no longer compete with a comparable neighborhood
  - Maintenance cost maybe too high, due to age, etc.
  - For sale signs more frequent
  - More turnover
  - Tenancy occupancy may increase
  - Properties may fail to attract buyers

- **Revitalization**
  - Decline ends, period of renewal begins.
  - Declining values end
  - Changes in preferences and community
  - Redevelopment occurs
  - Properties are updated to current trends
  - Economic growth may fuel revitalization
  - Gentrification may occur

Source: Appraising Residential Properties 4th Edition

Robert C Oglesby, SRA, AI-RRS
Supply & Demand, Market Conditions

- Take the time to study the number of sales over the past 6 to 12 months, that compete with the subject property.
- How is the supply of competitive properties?
  
a. Know the normal supply to support an in-balance level of inventory
b. Most normal family markets, 2.5-4 months is a normal supply.
c. Under 2.5, may suggest a shortage of supply; over 4 months may suggest an over supply.
d. Discussion
Highest & Best Use

If we are appraising to support market value, the property’s highest and best use must first be determined. The property’s highest & best use assists in delineation of the market area for the subject, it’s buyer and the desired use. It’s also important in helping with the selection of comparable properties.

Definition: The reasonably probable use of property that results in the highest value. The four criteria that the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity. (The Dictionary of Real Estate Appraisal 6th Edition, 2015)

Generally, this is a two-step process that includes analysis of the land as though vacant and analysis of the highest and best use as improved.

• Should the improvements be razed? This can only be done if the appraiser knows what the land is worth.
• Should the existing improvements be altered to cure any market expectations? Remodel? Expand?
• What is an ideal improvement in the market?
• Discussion.
## Highest & Best Use Discussion On Ideal Property

### Table of Sales / Discussion / Superstition Mountain Sales Since 2017

<table>
<thead>
<tr>
<th>Sale</th>
<th>Price</th>
<th>Days on Market</th>
<th>Size (Sq. Ft.)</th>
<th>Price Per Lot Size (Sq. Ft.)</th>
<th>Lot Size (Sq. Ft.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>7838 E Greythorn</td>
<td>$700,000</td>
<td>76</td>
<td>3485</td>
<td>201</td>
<td>20,473</td>
</tr>
<tr>
<td>3010 S Pond.</td>
<td>$717,450</td>
<td>586</td>
<td>3502</td>
<td>205</td>
<td>22,216</td>
</tr>
<tr>
<td>3357 S Syca.</td>
<td>$725,000</td>
<td>679</td>
<td>3500</td>
<td>209</td>
<td>24,174</td>
</tr>
<tr>
<td>2608 S Syca.</td>
<td>$760,000</td>
<td>363</td>
<td>3999</td>
<td>190</td>
<td>24,829</td>
</tr>
<tr>
<td>3656 S Pond</td>
<td>$837,000</td>
<td>388</td>
<td>4807</td>
<td>174</td>
<td>24,320</td>
</tr>
<tr>
<td>3966 S Summit</td>
<td>$849,000</td>
<td>415</td>
<td>4072</td>
<td>209</td>
<td>35,262</td>
</tr>
<tr>
<td>8731 E LostGl</td>
<td>$945,000</td>
<td>167</td>
<td>4602</td>
<td>205</td>
<td>23,674</td>
</tr>
<tr>
<td>3255 S Pond</td>
<td>$1,039,450</td>
<td>690</td>
<td>5215</td>
<td>199</td>
<td>48,188</td>
</tr>
<tr>
<td>7364 E Usery</td>
<td>$1,075,000</td>
<td>40</td>
<td>4639</td>
<td>231</td>
<td>24,829</td>
</tr>
<tr>
<td>3330 S Syca</td>
<td>$1,110,000</td>
<td>112</td>
<td>4129</td>
<td>269</td>
<td>25,277</td>
</tr>
<tr>
<td>7654 E Wilder</td>
<td>$1,200,000</td>
<td>69</td>
<td>4716</td>
<td>254</td>
<td>27,048</td>
</tr>
<tr>
<td>3157 S Syca</td>
<td>$1,350,000</td>
<td>194</td>
<td>4940</td>
<td>273</td>
<td>23,973</td>
</tr>
<tr>
<td>3372 S Syca</td>
<td>$1,500,000</td>
<td>258</td>
<td>5598</td>
<td>268</td>
<td>24,060</td>
</tr>
<tr>
<td>3432 S First W</td>
<td>$1,599,500</td>
<td>235</td>
<td>5461</td>
<td>293</td>
<td>38,810</td>
</tr>
<tr>
<td>2701 S Pinyon</td>
<td>$1,675,000</td>
<td>71</td>
<td>5773</td>
<td>291</td>
<td>24,916</td>
</tr>
<tr>
<td>3748 S Spani</td>
<td>$1,810,000</td>
<td>592</td>
<td>5445</td>
<td>332</td>
<td>46,174</td>
</tr>
<tr>
<td>7220 E Cotton</td>
<td>$1,887,500</td>
<td>130</td>
<td>6207</td>
<td>305</td>
<td>43,686</td>
</tr>
<tr>
<td>7312 E Cotton</td>
<td>$2,175,000</td>
<td>392</td>
<td>6538</td>
<td>392</td>
<td>36,141</td>
</tr>
<tr>
<td>Avg</td>
<td>$1,219,717</td>
<td>303</td>
<td>4,813</td>
<td>$250</td>
<td>33,009</td>
</tr>
</tbody>
</table>

---

Robert C Oglesby, SRA, AI-RRS
## Highest & Best Use Continued

Sample Table – Discussing Subject improvement Status

<table>
<thead>
<tr>
<th>Improvements</th>
<th>Subject Property</th>
<th>Ideal Improvement</th>
<th>Should the subject property be modified?</th>
</tr>
</thead>
<tbody>
<tr>
<td>GLA (sq. ft.)</td>
<td>19,740+2,004 Guest (over 20k)</td>
<td>3,500 – 5,500</td>
<td>No – it's not feasible to modify the subject property. You likely be starting from scratch. If the subject parcel(s) were vacant, then 2 homes should be built on each parcel, supporting the ideal improvement.</td>
</tr>
<tr>
<td>Bath count</td>
<td>10+</td>
<td>4-5</td>
<td>No – already over improvement with bath utility.</td>
</tr>
<tr>
<td>Car storage</td>
<td>8+</td>
<td>4-5</td>
<td>No</td>
</tr>
<tr>
<td>Hardscaping</td>
<td>Substantial</td>
<td>Substantial</td>
<td>No – market accepted. The subject’s market expects substantial hardscaping and outdoor amenities – pools, spas, bbqs, outdoor kitchen, patios, etc.</td>
</tr>
<tr>
<td>Bedroom count</td>
<td>8+</td>
<td>4-5</td>
<td>No</td>
</tr>
<tr>
<td>Guest House</td>
<td>2,000 sf</td>
<td>Guest houses desirable</td>
<td>No</td>
</tr>
<tr>
<td>Condition/Renovation</td>
<td>Good Condition</td>
<td>Average – V-Good</td>
<td>No</td>
</tr>
<tr>
<td>Lot size</td>
<td>1.93 Acres</td>
<td>20,000 sf – 1 Acre</td>
<td>As improved NO. If the subject was vacant, yes the with the predominant lot size, it would be best to have as 2 parcels, with an ideal size home.</td>
</tr>
<tr>
<td>Quality of Construction</td>
<td>Excellent</td>
<td>Very Good to Excellent</td>
<td>No</td>
</tr>
</tbody>
</table>
SELECTION OF COMPARABLES

A. Elements of Comparison
B. Highest & Best Use, Bracketing
C. Verification
D. Principle of Substitution
E. Agency Guidelines
Elements of Comparison
Definition

Elements of comparison are characteristics of properties and transactions that cause real estate prices to vary and have the largest affect on value. They aid in explaining the variances in prices paid for real property. It is the appraiser’s responsibility to determine what the elements of comparison are for a specific appraisal assignment.
Elements of Comparison
Worksheet

Worksheet #2 – Elements of Comparison

Please list common elements of comparison (open discussion)

<p>| | | | | | | | | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Elements of Comparison Worksheet Completed

### Worksheet #2 – Elements of Comparison

Please list common elements of comparison (open discussion)

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Property Rights</td>
</tr>
<tr>
<td>2</td>
<td>Financing and or Concessions</td>
</tr>
<tr>
<td>3</td>
<td>Conditions of sale</td>
</tr>
<tr>
<td>4</td>
<td>Expenditures after sale (new roof, other improvements)</td>
</tr>
<tr>
<td>5</td>
<td>Site Location, Views, Site Utility</td>
</tr>
<tr>
<td>6</td>
<td>Quality, Condition, Effective Age</td>
</tr>
<tr>
<td>7</td>
<td>Time of sale (market conditions)</td>
</tr>
<tr>
<td>8</td>
<td>Car storage</td>
</tr>
<tr>
<td>9</td>
<td>Gross Living Area, Below Grade, Bed / Bath utility (overall livable utility)</td>
</tr>
<tr>
<td>10</td>
<td>Site improvements (porches, patios, pools, other hardscaping, landscaping, barns, etc.)</td>
</tr>
<tr>
<td>11</td>
<td>Design, # of levels,</td>
</tr>
<tr>
<td>12</td>
<td>Accessory Dwelling Units</td>
</tr>
<tr>
<td>13</td>
<td>Heating, Cooling, functional utility</td>
</tr>
</tbody>
</table>

---

Robert C Oglesby, SRA, AI-RRS
Elements of Comparison

Important Steps, before we dive deeper with elements of comparison.

**Highest & Best Use**

Comparable properties must support the subject’s highest & best use, as it assists in delineation of the market area for the subject and its buyer and desired use.

**Bracketing**

A process in which an appraiser determines a probable range of values for a property by applying qualitative techniques of comparative analysis to a group of comparable sales. The comparable selection may be divided into two groups:

- Superior to the subject
- Inferior to the subject
- The adjusted sale prices reflected by these two groups limit the probable range of values for the subject and identify a bracket in which the final value opinion will fall. The most comparable sales will typically fall near the middle of the range.
Elements of Comparison
The Big 3-4 Elements of Comparison

Discussion on the elements of comparison that have the greatest impact on price?
The appraiser has the responsibility of verifying the information contained within an appraisal report and the data it is “factually accurate”. Remember, the FNMA Pyramid reflects the foundation of a credible report as Data Integrity.

The appraiser may look at several potential types of data sources:

- Public Records
- Multiple Listing Services and other subscription services
- Published articles
- Interviews with market participants
**Principle of Substitution**

“The appraisal principle that states that when several similar or commensurate commodities, goods or services are available, the one with the lowest price will attract the greatest demand and widest distribution. This is the primary principle upon which the cost and sales comparison approaches are based.

Property values tend to be set by the price of acquiring an equally desirable substitute property. The Principle of Substitution recognizes that buyers and sellers of real property have options, i.e., other properties are available for similar uses.”


Robert C Oglesby, SRA, AI-RRS
Agency Guidelines

“The Appraiser must verify the characteristics of the transaction (such as sale price, date, seller concessions, conditions of sale) and the characteristics of the comparable property at the time of sale through reliable data sources.

The Appraiser must verify transactional data via public records and the parties to the transaction: agents, buyers, sellers, Mortgagees, or other parties with relevant information. If the sale cannot be verified by a party to the transaction, the Appraiser may rely on public records or another verifiable impartial source.

MLS records and property site visits alone are not acceptable verification sources.”


Robert C Oglesby, SRA, AI-RRS
The appraiser is responsible for determining which comparables are the best and most appropriate for the assignment. Fannie Mae expects the appraiser to account for all factors that affect value when completing the analysis. Comparable sales should have similar physical and legal characteristics when compared to the subject property. These characteristics include, but are not limited to, site, room count, gross living area, style, and condition. This does not mean that the comparable must be identical to the subject property, but it should be competitive and appeal to the same market participants that would also consider purchasing the subject property. Comparables that are significantly different from the subject property may be acceptable; however, the appraiser must describe the differences, consider these factors in the market value, and provide an explanation justifying the use of the comparable(s). “
Real World Guidelines When Selecting Comparables

1. Timeline
   a. FHA/USDA - require three closed sales within 12 months.
   b. FNMA - no written rule, however must lenders still want three within 12 months
   c. VA - generally follows FHA/USDA but does allow for variances.
   d. Changing markets: All agencies, prefer two 90-day sales (guideline not a rule) plus two adjusted active listing and or pending sales

2. Location / Distance
   a. No requirement for comps to be within one-mile, however the appraiser cannot skip over more comparable properties to target. All lenders require a reasonable summary on distance of comps, location summary required.

3. Accessory Dwelling Unit
   a. Must have at least one comparable property with the same use.

4. Manufactured Homes
   a. At least two manufactured home sales.
   b. FHA: Min size needed - 400 sf
   c. FNMA: Min size needed - 600 sf (12 feet wide)
   d. FNMA: Single section – must be located in an approved Co-op, condo or PUD

Robert C Oglesby, SRA, AI-RRS
Real World Guidelines When Selecting Comparables ...continued

5. Unique
   a. FHA / USDA – they do not care for unique, which may present an issue
   b. FNMA – must demonstrate marketability even with older sales. If the appraiser is not able to find any evidence of market acceptable, and the characteristics of the property are so significantly difference that he or she cannot establish a reliable opinion of market value, the property is not acceptable as security for a mortgage delivered to FNMA.
   c. VA – will likely follow FHA / USDA, but considerations are made following similar guidelines as FNMA.

In all cases, a good technique is to bracket and or support characteristics of the subject

Bracketing:

A process in which an appraiser determines a probable range of values for a property by applying qualitative techniques of comparative analysis to a group of comparable sales.

The comparable selection may be divided into two groups:
   • superior to the subject
   • inferior to the subject

The adjusted sale prices reflected by these two groups limit the probable range of values for the subject and identify a bracket in which the final value opinion will fall. The most comparable sales will typically fall near the middle of the range.

General Discussion
# Sample Sales Grid-Bracketing

## Uniform Residential Appraisal Report

- **File No.:** [Redacted]
- **Address:** Santa Barbara, CA 93111
- **Property Type:** Single Family Residence
- **Lot Size:** 8,432 sf
- **Bedrooms:** 3
- **Bathrooms:** 2
- **Year Built:** 1990
- **Square Footage:** 1,250 sq ft
- **Price:** $1,250,000

### Comparable Sales

<table>
<thead>
<tr>
<th>Comparable Sale</th>
<th>Subject Property</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Address:</strong></td>
<td>Santa Barbara, CA 93111</td>
</tr>
<tr>
<td><strong>Price:</strong></td>
<td>$1,250,000</td>
</tr>
<tr>
<td><strong>Lot Size:</strong></td>
<td>8,432 sf</td>
</tr>
<tr>
<td><strong>Bedrooms:</strong></td>
<td>3</td>
</tr>
<tr>
<td><strong>Bathrooms:</strong></td>
<td>2</td>
</tr>
<tr>
<td><strong>Year Built:</strong></td>
<td>1990</td>
</tr>
<tr>
<td><strong>Square Footage:</strong></td>
<td>1,250 sq ft</td>
</tr>
</tbody>
</table>

### Adjustments

- **Net Adjustment:** -1.8%
- **Adjusted Sale Price:** $1,202,560

### Further Details

- **Location:** Santa Barbara, CA 93111
- **Market:** [Redacted]
- **Valuation:** [Redacted]

---

**Appraisal Institute**

Robert C Oglesby, SRA, AI-RRS
COMPARABLE PROPERTIES CASE STUDIES

A. Production Home
B. Custom Home
C. Premium View
D. Unique Design, Features
E. Manufactured Home
Production Home

- 2,550 square feet
- New American / Two Level
- Average quality of construction Q4
- HOA neighborhood
- 7,500 square feet lot size
- Standard upgrades, views
- 2 car garage
- Condition average C4

Robert C Oglesby, SRA, AI-RRS
Elements of Comparison
Reference for Case Studies

Elements of Comparison:
- Car Storage
- 10-20% GLA
- Design
- Location
- Bedroom or Bath Count
- Lot Utility
- Principle of Substitution

Market segments can place varying levels of importance on the Elements of Comparison. What is important in one market may not be as important in another.

Robert C Oglesby, SRA, AI-RRS
Market segments can place varying levels of importance on the Elements of Comparison. What is important in one market may not be as important in another.
Custom Home

- 4,820 square feet
- Prairie/ Two Level
- Very Good quality of construction Q2
- Gated/HOA neighborhood
- 12,500 square feet lot size
- High-level finishes
- 2 car + RV garage
- Condition Good C2
- Neutral views
Market segments can place varying levels of importance on the Elements of Comparison. What is important in one market may not be as important in another.
Market segments can place varying levels of importance on the Elements of Comparison. What is important in one market may not be as important in another.

Robert C Oglesby, SRA, AI-RRS
Premium View

- 5,000 square feet
- Low Country/Three Level
- Very Good quality of construction Q2
- Fully Remodeled, Interior & Exterior
- 10,000 square feet lot size
- Mid-level finishes
- 2 car garage
- Condition Good C2
- Golf & Water View
- Possible Rental
Market segments can place varying levels of importance on the Elements of Comparison. What is important in one market may not be as important in another.
Market segments can place varying levels of importance on the Elements of Comparison. What is important in one market may not be as important in another.
Unique Design

- 7,500 square feet
- Contemporary/Two Level
- Excellent quality of construction Q1
- Golf Community
- 20,000 square feet lot size
- High-level finishes
- 4 car garage
- Condition Good C2
- Golf View

Robert C Oglesby, SRA, AI-RRS
Elements of Comparison
Reference for Case Studies

Market segments can place varying levels of importance on the Elements of Comparison. What is important in one market may not be as important in another.
Market segments can place varying levels of importance on the Elements of Comparison. What is important in one market may not be as important in another.
Manufactured Home

- 2,000 square feet
- Manufactured / Single Level
- Average quality of construction Q4
- 1 acre lot size
- Average finishes
- No garage
- Condition Good C3
- Averages views
- Horse Property

Robert C Oglesby, SRA, AI-RRS
Elements of Comparison
Reference for Case Studies

Car Storage 10-20% GLA Design Location Quality of Construction Lot Utility

Market segments can place varying levels of importance on the Elements of Comparison. What is important in one market may not be as important in another.
Market segments can place varying levels of importance on the Elements of Comparison. What is important in one market may not be as important in another.
APPLY ADJUSTMENTS to COMPARABLE PROPERTIES

A. Rationale, Support
B. Credible Techniques
C. Paired-Sales aka Sales Comparison Approach to Value
D. Depreciated Cost aka Cost Approach to Value
E. Income Capitalization Approach
F. Market Participant Interviews
G. Sample Statistical Models
Rationale, Support

Appraisers are asked to support their adjustments by lenders, lawyers, relocation companies and other common clients of residential appraisal reports. The appraiser must provide sufficient information to enable the client and intended users to understand the rationale of the opinions and conclusions, including reconciliation of the data.

Before employing a credible technique to support an adjustment, the appraiser must summarize the rationale for an adjustment (or lack of an adjustment). A reasonable theory to study, would a predominant buyer pay $1 more for an improvement versus an equal substitute does not have?

Examples:

1. An appraiser does not adjust for an improvement. The report should contain a summary the improvement is not a benefit in the subject’s competitive market for the following reasons.
2. An adjustment is applied for an inground pool. Buyers pay a premium in the subject’s competitive market, due to weather, where pools are used through a majority of the year.
Credible Techniques

WHAT ARE THEY? THE NEXT 5 SLIDES WILL ANSWER THIS QUESTION

1. Paired-Sales aka Sales Comparison Approach
2. Depreciated Cost aka Cost Approach
3. Income Capitalization Approach
4. Market Participant Interviews
5. Statistical Models
Paired-Sales Extraction

This is the adjustment technique preferred, by most appraisers. The basic premise of this analysis for extracting an adjustment requires the appraiser to find data with and without a feature, and then isolate the difference in price due to the feature by comparing gross prices.

This technique is easy to understand and use, but the data is sometimes difficult to obtain, especially in areas where it’s hard to find three sales, let alone matched data sets to support an adjustment.
Paired-Sales
Qualitative & Quantitative Adjustments
Match Paired Analysis

A quantitative technique used to identify and measure adjustments to the sale prices or rents of comparable properties; to apply this technique, sales or rental data on nearly identical properties are analyzed to isolate a single characteristic's effect on value or rent.


<table>
<thead>
<tr>
<th>Sale</th>
<th>Price</th>
<th>Date of Sale</th>
<th>Adjustment</th>
<th>Adjusted Price</th>
<th>Pool</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>$325,000</td>
<td>Current</td>
<td></td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>$330,000</td>
<td>Prior</td>
<td></td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>$327,500</td>
<td>Current</td>
<td></td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>D</td>
<td>$315,000</td>
<td>Current</td>
<td></td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>E</td>
<td>$317,000</td>
<td>Current</td>
<td></td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>F</td>
<td>$310,000</td>
<td>Prior</td>
<td></td>
<td>No</td>
<td></td>
</tr>
</tbody>
</table>

Assuming that all sales above are market similar, expect for a pool amenity, derive a pool adjustment out of the six sales above. Please narrate and reconcile the adjustment below:

Pool Adjustment Reconciled - $
Depreciated Cost

Depreciated cost – this technique is based on the premise that buyers use of cost of construction as a basis for adding or subtracting value for a particular item. A typical buyer might think they want a pool, but the house they like does not have one. So, they consider buying the house and adding a pool. Does cost always equal market? No.

Cost is generally the highest form of value the market may allow and its an estimate of fact.
## Depreciated Cost

**Qualitative & Quantitative Adjustments**

<table>
<thead>
<tr>
<th></th>
<th>Net sale price of each comparable sale</th>
<th>Depreciated value buildings ($V_n$)</th>
<th>Total Depreciation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$456,000</td>
<td>$291,000</td>
<td>$134,600</td>
</tr>
<tr>
<td></td>
<td>$455,000</td>
<td>$266,500</td>
<td>$138,500</td>
</tr>
<tr>
<td></td>
<td>$485,000</td>
<td>$325,500</td>
<td>$175,500</td>
</tr>
<tr>
<td>% Depreciation</td>
<td>31.63%</td>
<td>34.20%</td>
<td>35.03%</td>
</tr>
<tr>
<td>Actual age</td>
<td>44</td>
<td>46</td>
<td>49</td>
</tr>
<tr>
<td>% Depreciation/year</td>
<td>0.72%</td>
<td>0.74%</td>
<td>0.71%</td>
</tr>
<tr>
<td>Indicated Economic Life</td>
<td>139.13</td>
<td>134.51</td>
<td>139.88</td>
</tr>
</tbody>
</table>
## Extracting Cost From Market

### Qualitative & Quantitative Adjustments

### Match Paired Analysis

<table>
<thead>
<tr>
<th>Extraction Method of Estimating Construction Cost</th>
<th>6108 E Redwing Rd, Paradise Valley</th>
<th>605 N Yavista Dr, Mesa</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sale price</strong></td>
<td>$6,175,000</td>
<td>$3,250,000</td>
</tr>
<tr>
<td><strong>Property Rights Transferred</strong></td>
<td>Free Simple</td>
<td>Free Simple</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>$6,175,000</td>
<td>$3,250,000</td>
</tr>
<tr>
<td><strong>Financing adjustment</strong></td>
<td>Cash to seller</td>
<td>Cash to seller</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>$6,175,000</td>
<td>$3,250,000</td>
</tr>
<tr>
<td><strong>Conditions of sale</strong></td>
<td>Arms Length</td>
<td>Arms Length</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>$6,175,000</td>
<td>$3,250,000</td>
</tr>
<tr>
<td><strong>Estimated Land Value ((V_L))</strong></td>
<td>$(1,600,000)</td>
<td>$(250,000)</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>$4,575,000</td>
<td>$3,000,000</td>
</tr>
<tr>
<td><strong>Basement area (sq. ft.)</strong></td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td><strong>Reproduction Cost of basement</strong></td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>$4,575,000</td>
<td>$3,000,000</td>
</tr>
<tr>
<td><strong>Garage area (sq. ft.)</strong></td>
<td>1,800</td>
<td>1,400</td>
</tr>
<tr>
<td><strong>Reproduction Cost of garage</strong></td>
<td>75</td>
<td>$(135,000)</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>$4,440,000</td>
<td>$(135,000)</td>
</tr>
<tr>
<td><strong>Porches, patios, lump sum, etc.</strong></td>
<td>(300,000)</td>
<td>(22,600)</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>$3,940,000</td>
<td>$2,907,400</td>
</tr>
<tr>
<td><strong>Landscaping, site improvements</strong></td>
<td>(650,000)</td>
<td>(75,000)</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>$3,290,000</td>
<td>$2,832,400</td>
</tr>
<tr>
<td><strong>Adjustment for differences in quality</strong></td>
<td>0.00%</td>
<td>5.00%</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>$3,290,000</td>
<td>$2,974,020</td>
</tr>
<tr>
<td><strong>Adjustment for market conditions</strong></td>
<td>12 months ago</td>
<td>2 Mos. Ago</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>$3,290,000</td>
<td>$2,974,020</td>
</tr>
<tr>
<td><strong>Size of the residence (sq. ft)/ sq. ft</strong></td>
<td>10,127</td>
<td>324.87</td>
</tr>
</tbody>
</table>

Robert C Oglesby, SRA, AI-RRS
Income Capitalization Approach

“Gross Rent Multiplier (GRM) - The relationship or ratio between the sale price or value of a property and its periodic rental income.

Gross Rent Monthly Multiplier (GRMM) - The relationship or ratio between the sale price or value of a property and its monthly rental income. “

Income Capitalization Approach

This assumes an appraiser can isolate market rent differences related to a particular item. Since this is analysis, it’s important to remember that sometimes will affect both rents and prices. Not all will affect both. Items that only affect price are difficult to isolate this way – such as needing a new exterior paint, etc.

**Market Based Adjustment – $14,000.**
A Market Survey suggests tenants pay higher premiums for properties not backing to a busy street. Paired-Rentals, suggest the market rent difference is $140 per month.
Apply to Sales Comparison Approach:

\[
\text{GRM 100 x $140 (market rent difference for busy street) = $14,000}
\]

(Secondary support)
Application of Formula
Estimated Gross Rent Multiplier - 100
Estimated Market Rent = $2,000

<table>
<thead>
<tr>
<th>Gross Rent Multiplier</th>
<th>100 (GRM) X $2000</th>
<th>$200,000(rounded)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Rent</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Robert C Oglesby, SRA, AI-RRS
Market Participant Interview
(buyer, broker, builder, etc.)

In a lot of cases, it sets the rationale if a particular item has an affect on price. The appraiser can interview buyers, real estate brokers, property managers, builders, attorneys, other real estate professionals that are active in the market, but not involved in the current appraisal.
Statistical Model

• Extremely important.

• The appraiser must understand the data and the procedures of the model they are using. Using a model as a basis for an adjustment, has risk if you don’t know the data. Does the model support all of the items or elements that affect price?

• Discussion
# Market Conditions Adjustment

<table>
<thead>
<tr>
<th></th>
<th>3856 S Bandit Dr</th>
<th>4210 E Season Cir</th>
<th>4021 E Ironhorse</th>
<th>4581 S Star Canyon Dr</th>
<th>3730 E Evans Dr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior sale price</td>
<td>$251,400</td>
<td>$260,000</td>
<td>$249,000</td>
<td>$360,000</td>
<td>$209,000</td>
</tr>
<tr>
<td>Most recent sale date</td>
<td>3/20/2018</td>
<td>2/4/2018</td>
<td>1/7/2018</td>
<td>4/14/2018</td>
<td>1/31/2018</td>
</tr>
<tr>
<td>Most recent sale price</td>
<td>$284,900</td>
<td>$282,000</td>
<td>$275,000</td>
<td>$419,500</td>
<td>$253,500</td>
</tr>
<tr>
<td>Overall % of change</td>
<td>13.33%</td>
<td>8.46%</td>
<td>10.44%</td>
<td>16.53%</td>
<td>21.29%</td>
</tr>
<tr>
<td>Years between sales</td>
<td>3.0139</td>
<td>0.2583</td>
<td>1.8972</td>
<td>2.9528</td>
<td>2.0306</td>
</tr>
<tr>
<td>Months between sales</td>
<td>36.20</td>
<td>3.12</td>
<td>22.78</td>
<td>35.47</td>
<td>24.39</td>
</tr>
<tr>
<td>Days between sales</td>
<td>1101</td>
<td>95</td>
<td>693</td>
<td>1079</td>
<td>742</td>
</tr>
<tr>
<td>% change per year</td>
<td>4.42%</td>
<td>32.75%</td>
<td>5.50%</td>
<td>5.60%</td>
<td>10.49%</td>
</tr>
<tr>
<td>% change per month</td>
<td>0.37%</td>
<td>2.71%</td>
<td>0.46%</td>
<td>0.47%</td>
<td>0.87%</td>
</tr>
<tr>
<td>% change per day</td>
<td>0.01210%</td>
<td>0.08907%</td>
<td>0.01507%</td>
<td>0.01532%</td>
<td>0.03%</td>
</tr>
</tbody>
</table>

*sales price may not be the recorded amount, due to concessions
*sale date reflects contract date, not recording date
*proxy method maybe used on some transactions - see summaries
Elements of Comparison

- Elements of Comparison Strengths and Weaknesses with Credible Adjustment Techniques
- Please list common elements of comparison (open discussion)
Elements of Comparison

- Elements of Comparison Strengths and Weaknesses with Credible Adjustment Techniques
- Please list common elements of comparison (open discussion)

<table>
<thead>
<tr>
<th>Element</th>
<th>Paired-Sales Ext</th>
<th>Depreciated Cost</th>
<th>Income Approach/GRM</th>
<th>Market Surveys</th>
<th>Models, Stats</th>
</tr>
</thead>
<tbody>
<tr>
<td>Condition</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes:
Sample Appraisal

A. Sample Grid of Three Comparable Properties

B. Apply Adjustments

C. Determine an Opinion of Market Value
# Sample Appraisal

**Effective Date of Appraisal:** 03/01/2019

**Adjustments**
1. Gross Living Area
2. Contract Date / Market Conditions Adjustments
3. Pool

## Sample Case Study / Mock Sales Comparison Grid

<table>
<thead>
<tr>
<th>Subject – 1233 Average St, Arizona</th>
<th>1234 Low St, Arizona</th>
<th>1235 High St, Arizona</th>
<th>1230 Medium St, Arizona</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales Price</strong></td>
<td><strong>$300,000</strong></td>
<td><strong>$312,000</strong></td>
<td><strong>$315,000</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Description</strong></th>
<th><strong>Description</strong></th>
<th><strong>Adjustment</strong></th>
<th><strong>Description</strong></th>
<th><strong>Adjustment</strong></th>
<th><strong>Description</strong></th>
<th><strong>Adjustment</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale or Fin.</td>
<td>N/A</td>
<td>Conventional</td>
<td>FHA</td>
<td>Conventional</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Concession</td>
<td>N/A</td>
<td>None</td>
<td>None</td>
<td>None</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Location</td>
<td>Golden Subdivision</td>
<td>Same Subdivision</td>
<td>Same Subdivision</td>
<td>Same Subdivision</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bed / Baths</td>
<td>3+ Den / 2</td>
<td>4 / 2</td>
<td>3+ Den / 2</td>
<td>3+ Den / 2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actual Age</td>
<td>3 Years</td>
<td>4 Years</td>
<td>5 Years</td>
<td>4 Years</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Living (Sq. Ft.)</td>
<td>2,000</td>
<td>1,800</td>
<td>2,200</td>
<td>2,050</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Garage</td>
<td>2 Car</td>
<td>2 Car</td>
<td>2 Car</td>
<td>2 Car</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contract Date</td>
<td>N/A</td>
<td>11/02/2018</td>
<td>02/01/2013</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Site Size (Sq. Ft.)</td>
<td>8,500</td>
<td>8,800</td>
<td>8,200</td>
<td>8,100</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exterior Features</td>
<td>Pool</td>
<td>Pool</td>
<td>No Pool</td>
<td>Pool</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Days On Market</td>
<td>N/A</td>
<td>20-Days</td>
<td>45-Days</td>
<td>15-Days</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interior Features</td>
<td>Average</td>
<td>Market Similar</td>
<td>Market Similar</td>
<td>Market Similar</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Final Adjusted  | $                | $              | $               |
| Sales Price     |                  |                |                |

Robert C Oglesby, SRA, AI-RRS
Sample Appraisal

Gross Living Area Adjustment

Paired-Sales Extraction

<table>
<thead>
<tr>
<th>Properties</th>
<th>123 West St</th>
<th>$290,000</th>
<th>321 East St</th>
<th>$300,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location</td>
<td>Golden</td>
<td></td>
<td>Golden</td>
<td></td>
</tr>
<tr>
<td>Actual Age</td>
<td>5 Years</td>
<td>0</td>
<td>7 Years</td>
<td></td>
</tr>
<tr>
<td>Quality of Construction</td>
<td>Q4</td>
<td></td>
<td>Q4</td>
<td></td>
</tr>
<tr>
<td>GLA</td>
<td>1800</td>
<td></td>
<td>2000</td>
<td>-10,000</td>
</tr>
<tr>
<td>Garage</td>
<td>2 Car</td>
<td></td>
<td>2 Car</td>
<td></td>
</tr>
<tr>
<td>Concessions</td>
<td>None</td>
<td></td>
<td>None</td>
<td></td>
</tr>
<tr>
<td>Site</td>
<td>7500</td>
<td>0</td>
<td>7800</td>
<td>0</td>
</tr>
<tr>
<td>Adjusted SP</td>
<td>$290,000</td>
<td></td>
<td>$290,000</td>
<td></td>
</tr>
</tbody>
</table>

Reconcile gross living area adjustment on a per sf basis: $50 per sf, as the difference between the two properties, is 200 sf, resulting in a difference of $10,000 in sales price.

Reconcile gross living area adjustment on a 200 sf basis: $10,000
Sample Appraisal

Pool Adjustment

Paired-Sales Extraction

<table>
<thead>
<tr>
<th>Properties No Pool</th>
<th>Sales Price</th>
<th>Properties With Pools</th>
<th>Sales Prices</th>
<th>Adjustment</th>
</tr>
</thead>
<tbody>
<tr>
<td>123 West St</td>
<td>$325,000</td>
<td>156 John St</td>
<td>$350,000</td>
<td>$25,000</td>
</tr>
<tr>
<td>148 East St</td>
<td>$315,000</td>
<td>142 Joe St</td>
<td>$330,000</td>
<td>$15,000</td>
</tr>
<tr>
<td>162 North St</td>
<td>$300,000</td>
<td>119 Jenn St</td>
<td>$330,000</td>
<td>$30,000</td>
</tr>
<tr>
<td>132 South St</td>
<td>$290,000</td>
<td>121 Jake St</td>
<td>$310,000</td>
<td>$20,000</td>
</tr>
</tbody>
</table>

Reconcile Pool Adjustment, different ways:

1. Average
2. High or low end of the range.
3. Weight best-paired sales as compared to the subject.
4. Adjusted range suggest $15,000 - $30,000. Is this variance normal?

Discuss

Robert C Oglesby, SRA, AI-RRS
Sales Comparison Approach
Reconciliation and Opinion of Market Value

A. Quality of Data
B. Weighting of Comparable Properties
C. Range of Adjusted Values, Variance
D. Sales Comparison Approach to Value
Determine an Opinion of Value

Final Reconciliation and Opinion of Value

<table>
<thead>
<tr>
<th>Indications of Value From Three Approaches</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Comparison</td>
</tr>
<tr>
<td>$6,900,000</td>
</tr>
<tr>
<td>Cost</td>
</tr>
<tr>
<td>$8,178,000</td>
</tr>
<tr>
<td>Income Capitalization</td>
</tr>
<tr>
<td>Not applicable</td>
</tr>
</tbody>
</table>

Sale Comparison Approach
As reported, it was necessary to travel up to 30 miles into competing for custom home markets. The subject property's buyer represents less than 1% of all activity in ARMLS. While every comparable property chosen required significant adjustments, it best reflects after cost activity.

Cost Approach to Value
Analyzing two methods of current construction supported a complex analysis. The subject property supported all forms of depreciation concluding a more complex analysis than the sales comparison approach. Recent new construction sales supported current cost estimates and demand from buyers. As a scale and weight, the cost approach analyzes weighted heavily on using market reactions to the subject's functional obsolescence. The result of the cost approach is higher than sales comparison approach to value but the steps and data needed to complete this approach were complex.

Income Capitalization Approach to Value
Review of the income capitalization approach supports weak data to complete a credible approach to value. Very few of similar properties are rented. The income capitalization approach was considered, but data is limited, resulting in not completing.

Conclusion – Opinion of Market Value
Limited buyers are in the subject’s market, and new construction is limited to a specific buyer whom may not care about return on cost. My final opinion of market value is based on the most applicable approach to current market conditions, sales comparison approach to value.

Final Opinion of Market Value - $6,900,000

Robert C Oglesby, SRA, AI-RRS
Determine an Opinion of Value

Sales Comparison Conclusion, Opinion of Market Value Support

Comparable Properties 1 - 6

<table>
<thead>
<tr>
<th>Comparable Sale</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted SP</td>
<td>6,124,000</td>
<td>6,324,000</td>
<td>5,520,000</td>
<td>6,244,000</td>
<td>15,490,000</td>
<td>10,391,000</td>
</tr>
<tr>
<td>Weight %</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>20</td>
<td>0</td>
<td>20</td>
</tr>
<tr>
<td>7</td>
<td>5,081,000</td>
<td>8,192,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8 - Active</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sales Comparison Approach To Value: $6,900,000 (rounded – based current weighted sales above and substitution data in the market which adjusted range supports the final opinion of value).

The high and low adjusted sales were considered outliers. Since most sales are adjusted up for livable utility, being higher than most adjusted sales is acceptable. This is further supported by replacement/cost approach to value. None of the sales are better than the other. The adjusted range of $5,520,000 - $10,391,000 (after outliers), is normal, due to cash buyers and limited market activity.
Appraiser Toolkit
Bridging the gap between agents and appraisers

A. Contract
B. Subject
C. Property Information
D. Comparable Properties
E. Something to Share
CONTRACT TAB

- Executed Contract
- Addendums
- Counter Offers
- Seller Concessions
- Final Sale Price
- Multiple Offers
- Over List Price Summary
SUBJECT TAB

• Listing Page
• Upgrades
• Recent Improvements
• Prior Sketch
• Plans/Specs
• Permits for Improvements
• Discrepancies in Public Records

Robert C Oglesby, SRA, AI-RRS
PROPERTY TAB

- Plat
- Survey
- Neighborhood Stats
- School District Data
- Demographics
- Key Points of Interest
COMPARABLES TAB

- Comparable Listing Pages
- Positives/Negatives
- COE Verification
- Market Data
- Discuss Low Sales

Robert C Oglesby, SRA, AI-RRS
SOMETHING TO SHARE TAB

A place to include a note to the appraiser or an observation not included in the other tabs.
Suggested Information & Reading

Books or Reading

   A. AppraisalInstitute.org
   B. Publications, AI Books
3. Valuation Advisory #4: Identifying Comparable Properties
   A. AppraisalFoundation.org
   B. Appraisal Practices Board, Valuation Advisories

References

1. Fanniemae.com, [https://www.fanniemae.com/content/guide/selling/index.html](https://www.fanniemae.com/content/guide/selling/index.html), Part B. Origination Through Closing, B4, Underwriting Property
2. AppraisalInstitute.org
3. Pvalue.com, guidance for analyzing value for solar systems
   a. [https://www.elevateenergy.org/selling-the-sun-now-live/](https://www.elevateenergy.org/selling-the-sun-now-live/)
4. HUD.gov, [https://www.hud.gov/program_offices/housing/sfh/handbook_4000-1](https://www.hud.gov/program_offices/housing/sfh/handbook_4000-1)
5. AppraisalFoundation.org
6. ArchitecturalDesigns.com
7. AppraisalTek.com, resources, Appraisal ToolKit