

Writing a

Demonstration

Narrative

Appraisal

Report



TABLE OF CONTENTS

CHAPTER I: OVERVIEW	3
CHAPTER II: THE BASICS	5
USPAP	5
Outline	6
Title page	7
Letter of transmittal	8
Table of contents	9
Pertinent criteria	10
Assumptions, conditions, limiting conditions	11
Appraisal process	12
Location analysis	14
CHAPTER III: HIGHEST AND BEST USE ANALYSIS	16
CHAPTER IV: THE COST APPROACH	20
Land value	21
Improvement value	24
CHAPTER V: THE SALES COMPARISON APPROACH	29
CHAPTER VI: THE INCOME APPROACH	40
Residential	40
Commercial	41
CHAPTER VII: CORRELATION (RECONCILIATION)	44
CHAPTER VII: CERTIFICATION, QUALIFICATIONS	45
CHAPTER VIII: ADDENDA (EXHIBITS)	46
IFAA DESIGNATION	48
IFAC DESIGNATION	49
REMINDERS	50

CHAPTER I

OVERVIEW

The appraiser is a merchant of words. The one commodity the appraiser has to sell is an accurate opinion of real estate value, based upon an analysis of historical data and facts at hand. There are three methods of presenting the appraisal information, in a written format. The three methods are the narrative report, the form report and the letter report.

The most effective technique to convey the opinion of value is through the narrative report. The appraiser can lead the reader through the thought processes that were involved in developing the appraisal, so that the final opinion of value is defensible. The narrative report is the most comprehensive format because it allows appraisers to present their conclusions without the space restrictions imposed by form or letter.

The intent of most form reports is to provide timely submissions of the appraiser's value conclusion. These reports are preferred, and many times required, by lending institutions and governmental agencies. A form report, in addition to expediting submission, permits the client to readily review and comprehend the body of the report. The Fannie Mae 1004/FHLMC70 Form is widely used by lenders for all elements of an appraisal, except the complete discussion of comparisons and final conclusions, which require narration. One of the form report's shortcomings is that it can tempt an appraiser to approach the appraisal process in a perfunctory manner. A competent, professional appraiser, committed to good quality reports, will include a written addendum to amplify a topic which cannot be adequately described by the mere marking of a box on a form report. In short, the appraiser must control the form and not be limited by it. Quality cannot be forsaken for quantity. Quality of reports is not increased through familiarity with a form, but primarily through familiarity with the area in which an appraiser works.

Occasionally, appraisers are requested to write letter appraisals by people (intended users) who may be inexperienced, naïve or who do not want the answer or value the appraiser would conclude by writing a narrative report. Writing a letter expressing one's expert professional opinions of value can be problematic, and thus the letter format is often an ill-advised practice for an appraiser. If one is required to use the letter format, it is mandatory that complete notes on the appraisal process and all market data be retained in the subject's file. Even in a letter report, the appraiser must ensure that the intended user fully understands appraisal concepts, principles, process, and approaches to value, to avoid the delivery of a misleading report.

The purpose of this guide is to enable the experienced appraiser to write a professional narrative report, with its function to have the narrative report accepted by the appraiser's peers and the public.

A narrative report is intended to demonstrate that the appraiser has a complete understanding of all elements of the appraisal process, as well as the candidate's expertise in applying the appraisal process to a specific situation. Care should be exercised when selecting the subject

property for a demonstration report, since the subject must have some type of functional and/or external obsolescence, and since all three approaches to value must be developed for the property. Narrative reports must be complete in every detail and analysis, and should be self-explanatory and self-supporting. The narrative report must be factual and demonstrate COMPETENCE, ETHICS and EXPERTISE.

The demonstration report by a candidate will probably be the most important document he/she will prepare to meet the requirements for a professional designation with the NAIFA. Having a designation often opens doors to other types of appraisal opportunities, and a well-crafted narrative report should be a challenge to complete.

In this text, guidelines are provided to enable the appraiser to successfully prepare a narrative (demonstration) report in accordance with the requirements of the Uniform Standards of Professional Appraisal Practice (USPAP).

Throughout the text, where appropriate, examples are given to further enhance the reader's understanding of the methodology and are not intended as THE ONLY way of reporting. The report must be written using the candidate's own words, not cloned or taken verbatim from any guide. If citations are included (as, definitions), then the sources should be properly credited (as, in foot or end notes).

Narrative reports should be written on plain, high quality paper without fancy embellishments on the border. Reports submitted to the NAIFA national office must be in Portable Document Format (PDF).

CHAPTER II

THE BASICS

All appraisals must comply with the requirements stated in the Uniform Standards of Professional Appraisal Practice (USPAP), as a minimum. It is highly recommended that each candidate carefully review Standard Rules 1 and 2, along with any relevant Statements and Advisory Opinions, as part of the preliminary steps in creating a demonstration narrative report. Below is a partial checklist, of components that should be in the demo report.

A statement the appraisal report conforms to the Uniform Standards of Professional Appraisal Practice.	
A statement with regard to the appraiser's competency to appraise the subject property.	
The identification of the level of report format (self-contained, summary, restricted use)	
A list of the assumptions and contingent and limiting conditions under which the report was produced	
A signed and dated certification page	
Description of appraisal process, including references to basic principles	
Identification of the client	
Identification of the intended user(s)	
Identification of the intended use of the appraisal report	
Discussion of the relevant characteristics	
Identification of the property interest being appraised	
A statement of the purpose of the appraisal	
Definition and source of value being appraised	
A statement of the effective date of the report	
A statement of the date the property was inspected	
A statement of the date the report was produced	
A discussion of the scope of work performed by the appraiser	
A statement with regard to any hypothetical conditions	
A statement with regard to any extraordinary assumptions	
Identification of non-realty items	
History of property ownership for 3 years	

NARRATIVE REPORT COMPONENT OUTLINE

The components often found in narrative reports include the following. The order may vary from one report to another, based on the purpose of the appraisal.

- Title Page
- Letter of Transmittal
- Table of Contents
- Summary of Factual Overview (aka salient facts)
- Note that the limiting conditions and certifications are often found at the beginning of a narrative appraisal, often after the salient facts
- Property identification – basic information, such as ownership, taxes, legal description, along with intended use, intended user, definition of value, scope of work, etc
- Location Analysis (regional and neighborhood economic factors)
- Site Description
- Improvement Description
- Highest and Best Use Analysis
- Land Evaluation
- The Cost Approach
- The Sales Comparison Approach
- The GRM (Income) Approach
- Reconciliation
- Statement of Limiting Conditions
- Certifications (these can often be found near the beginning of the report, too)
- Appraiser Qualifications
- Addenda, including sketches, photos, maps

The following pages will address each of the components and serve as a guide to the appraiser for the minimum level of items that should be included within a report. This minimum does not guarantee that the appraiser has fulfilled the requirements for a designation. The appraiser, based on market area and conditions, may need to include additional supporting documentation to assist the reader/user of the report in understanding the final value conclusion.

Some additional notes: It is imperative that the candidate support statements with facts. For example, if the market is characterized as increasing, provide statistics to explain the basis for the statement. If the area has stable employment, discuss the history of employment – numbers employed, major employers, unemployment percents, projected employment.

TITLE PAGE

There is no one style for creating a title page. It is a personal preference, but if included should contain at a minimum the property address; the property type; the client's name and address; the appraiser's name, address and membership number; and, the effective date of value.

Example

<p style="text-align: center;">Market Value Appraisal</p> <p style="text-align: center;">OF</p> <p style="text-align: center;">XXX Anyplace Avenue</p> <p style="text-align: center;">Anywhere, USA (Address)</p> <p style="text-align: center;">A</p> <p style="text-align: center;">Single Family Residence (Type of property)</p> <p style="text-align: center;">For</p> <p style="text-align: center;">(Name of client or User)</p> <p style="text-align: center;">As of</p> <p style="text-align: center;">Date of Value</p> <p style="text-align: center;">Joe Professional Appraisers mailing address</p>
--

LETTER OF TRANSMITTAL

The letter of transmittal is a business style letter and is concise in the delivery of the information. Some information delivered within this letter will later be expounded on in the body of the narrative.

The following is only a guide for a letter of transmittal—and not intended to be used or copied into one’s demonstration report. Use common sense—but deliver the required information within the letter. If using letterhead, the appraiser’s name may or may not be included with the business name.

Example

Joe Professional Address of appraiser Anywhere, USA
Date
Clients Mailing address Anywhere, USA Zip Code
Dear (client)
I have inspected a xxxx year old dwelling, xxxx square-foot (identify type of dwelling) at xxx Downtown Avenue, Anywhere, USA, on (month, day, year), for the purpose of estimating market value of the fee simple title of this property. This demonstration report is submitted in a Summary format in compliance with the Uniform Standards of Professional Appraisal Practice (USPAP).
The use of this report is to complete requirements for upgrading of membership for the National Association of Independent Fee Appraisers (NAIFAI) and is intended for the exclusive use by the NAIFA.
The data gathered and the conclusions reached in the analysis of the subject property are included in the following pages of the report. (Or subject to the following extraordinary or hypothetical conditions—or note where in the report these or itemized).
After completing my investigation and analysis, it is concluded that the value of the (subject address) as of (day, month, and year) is:
Spell out value (\$xxx, xxx)
Respectfully, (your signature)
Joe Professional Appraiser

TABLE OF CONTENTS

The table of contents should allow the user/reader of the report to locate information quickly. The example below is for illustrative purposes only and is not in a complete format. Your word processing software should allow you to have the page numbers right aligned, to ensure a uniform right margin, part of a professional report.

Example

TABLE OF CONTENTS	
Summary of Pertinent Criteria	
Property Identification	X
Rights Appraised	X
Client Name	X
Purpose of the Appraisal.....	X
Location Analysis	
Regional Data	X
City Data.....	X
Neighborhood Data	X
Conclusions	X
Site Description	
Physical Characteristics	
Legal Description	
Utilities	
Zoning	
Flood plain	
Addenda	
Sketch	
Photographs	
Subject	
Land Sales	
Comparable Sales	
Rental Comparables	
Plat Map	
Flood Map	
Zoning Map	
Etc.	

SUMMARY OF SALIENT FACTS (optional page)

This type of page is not listed in the check list but serves to give the reader/user of the report a snap shot of the important relevant items contained within the analysis. Listed below are items that should be covered but it is not considered all inclusive; that will depend upon the type of report that is prepared. Naturally, this page cannot be constructed until such time the full report is completed.

Example

SUMMARY OF SALIENT FACTS	
Purpose of the appraisal	Estimate market value
Function of the appraisal	Demonstration report for NAIFA designation
Identification of the property	xxx Any Street, Any Town, Any State xxxxx
Type of property	Single family residential (income, agricultural, etc)
Lot size	Dimensions/square feet/front feet
Building size	GLA/GBA
Highest and best use	Cite use
Land value	Dollar amount
Cost approach	Dollar amount
Sales comparison approach	Dollar amount
Income approach	Dollar amount
Final opinion of value	Dollar amount
Date of value	Date

ASSUMPTIONS, CONDITIONS AND LIMITING CONDITIONS

In completing a narrative report, as with any appraisal the appraiser is engaged to complete, a list of assumptions and contingent limiting conditions is needed.

The contingent and limiting conditions in this part of the report are where the appraiser spells out to the client/intended user the basic conditions of the report. It would be unwise and unprofessional for an appraiser to submit a narrative report without including a statement of limiting conditions.

The placement of the limiting conditions in the report may be made at the appraiser's discretion. Many appraisers like to include the conditions immediately behind the letter of transmittal. That way, the appraiser hopes that the client will be aware of any conditions before he reads the report. Some appraisers feel that conditions should be in the addenda. You may need to add other items to fit your own particular appraisal problems or local conditions.

The Assumptions, Contingent and Limiting Conditions may be different on each report. Use caution in copying the "exact" items from the URAR 1004 list—as this was a Fannie Mae developed format and many of the items in it may not apply for your demonstration subject property. USPAP **does** indicate at a minimum what the appraiser must address. See Standards Rule 2-3 for guidance on content.

THE APPRAISAL PROCESS

At this point it is desirable to lead the reader through the process that you, as an appraiser, will adopt to estimate the value.

The steps taken to arrive at the final conclusion of value should guide the user/reader through the report. Each approach to value should contain an overview, including how the basic economic principles apply to that approach. The actual process used in the development of each approach to value can be outlined in that section of the report.

For illustrative purposes one may elect to design a flow chart and then expound on each step. The student workbooks that are used in USPAP update classes often contain charts with a synopsis of the appraisal process.

Begin with the first step—define the appraisal problem, and “walk” your intended user through the entire process. After explaining the appraisal process, begin with identification of the property; identification of the property rights; defining the type of value; identification of the effective date of value; citing the Scope of Work and identifying the use and user(s).

These items can be stated through short descriptive sentences or possibly setup in a chart format:

Example

Property Description:	The subject is a one story dwelling of frame construction built approximately 21 year ago. The subject is situated on a slab foundation.
Address:	1600 South Dakota Avenue New York, New York 00023
Legal Description:	Lot numbered Twelve (12) Block numbered Fourteen (14) Subdivision: Cold States Plat one of fifty
Lot size:	State the lot size in acres or square feet
Owner of Record:	Cite the owner or record as reported on Deed
History of Ownership:	Spell out the history from current owner; last purchase date and any known marketing or listing of the subject.

PURPOSE OF THE APPRAISAL

At this point you can begin narration of the report. Keep in mind the flow of the information and try not to present a confusing report whereby the reader needs to keep flipping forwards and backwards. Placement of certain maps can be contained nearest the information cited or moved to the addenda. Utilize the checklist.

After explaining the purpose of the report, the appraiser needs to define the type of value being sought and the origination of the definition.

The property rights being appraised will in most circumstances, for a demonstration report, be “fee simple”—and the appraiser should identify and discuss the Bundle of Rights to confirm complete ownership as if unencumbered. Remember, you are demonstrating YOUR knowledge. USPAP also comments that the real property rights being appraised must be substantiated, as needed, by copies or summaries of title descriptions or other documents that set forth any known encumbrances.

A statement is required as to the “effective date of the report”; the date the property was inspected; and, the date the report was produced. If there is a large time difference from the date of inspection and completion of the report—remember to keep your comments and frame of mind in the “past”. There have been situations in which a property was selected for a demonstration report, and inspected, then the work file was set aside, and continued during slow periods. All data should reflect the date of valuation.

If the report is subject to any Hypothetical Conditions or Extraordinary Assumptions, they should be noted in this section—prior to the reader continuing to the valuation sections.

The demonstration report will also need to specify all non-realty items that are included with the value.

In accordance with USPAP, the appraiser will provide a narration on the scope of work performed in order to provide a supportable and defensible analysis.

Standard 1 of USPAP lays the foundation for developing an appraisal and what the appraiser **must** employ. For reporting requirements of items noted above, Standard 2 of USPAP gives guidance on the narration.

The following are examples of appropriate statements to help the appraiser begin the narration:

- a) The Purpose of the appraisal is to develop an opinion of the market value of a (single-family, duplex, tri-plex or other type of property) located in Any place Avenue, Any town USA.
- b) The function of the appraisal, if known, could be for divorce settlement, for financing or to serve as a demonstration appraisal for the upgrading to member status.

- c) Don't forget the intended use and intended user!
- d) The Property Rights appraised are as fee simple title or complete ownership with all the Bundle of Rights, as if unencumbered, as a whole. You will likely need to expand on the Bundle of Rights, presuming limited knowledge by the intended user.
- e) Market Value (defined) and cite the source. USPAP did not develop the definition of market value—cite the appropriate source.
- f) The property is owned by Homeowner.
- g) The property is a single-family residence located at XXX Any place Avenue, Any town, USA
 - 1. Address
 - 2. Legal description
 - 3. Taxes, special assessments
- h) History of ownership- The subject property was purchased five years ago for xxx.xx dollars.
- i) Date of appraisal _____.

LOCATION ANALYSIS

For these sections, social, demographic, governmental and economic information can be obtained from various sources, such as the local chamber of commerce, census bureau, regional planning bodies and city public relations departments. However, this information **must not** be copied, unless relevant and applicable to the subject property. The material presented in this section should be tailored to help the reader better understand the subject property and to provide pertinent area background material affecting the valuation of the subject property. Both the positive and negative influences on the subject property must be presented. Thus, if the area is depressed, industries are leaving the area, and there is high unemployment, then this information should be related to the valuation conclusion. If the area has high foreclosure rates and a lack of financing, then this information should be related to the valuation conclusion. On the other hand, if the area is experiencing population growth, an influx of new industry, new modes of transportation and other positive influences, this information should be related to the valuation conclusion. In this section, the appraiser must show the relationship between the information presented in this section and the appraisal problem.

It is good to remember that a report should reflect consistency. If the economy is good, prices are probably appreciating. If, on the other hand, the reverse is true, prices may be declining. Thus, later sections of the report should reflect consistency with the area and regional data and state of the economy.

The following list of items is not intended to be an all-inclusive list. The appraiser must decide what items are pertinent to his/her subject property. Data sources must be cited. Spreadsheet cells or charts, developed by the candidate, should be included, demonstrating trends in the economic base, population and demographics, as well as those related to specific, multi-year statistics about market trends – increasing/stable/declining trends in number of sales, sale and

list prices, days on market, seller concessions, The candidate should include adequate detail to fully support statements made throughout the report.

REGIONAL AND/OR CITY DATA

1. Location (quality compared to what)
2. Economic base (employment and/or employer)
3. Population (growth rate, age groups, households, and direction of growth geographically)
4. Facilities (transportation, road network, utilities, medical, etc)
5. Governmental services
6. Trends (regarding population, employment, increasing-decreasing, etc.)
7. Conclusions (relate to subject)

NEIGHBORHOOD ANALYSIS

1. Boundaries (define)
2. Location and types of structures (schools, shopping facilities, places of worship, etc.)
3. Typical buildings (age, condition, style, etc)
4. Percentage of area built-up (predominant types of development, conformity)
5. Municipality services (utilities trash pick-up, police, fire protection)
6. Cultural aspects (education, recreation, etc)
7. Roads and transportation
8. Income levels
9. Maintenance (reputation, appearance, curb appeal)
10. Topography and character
11. Trends (inclining/declining values; stability/growth; exposure time; life cycle; progression/regression)
12. Conclusion (relate to subject)

Discussion of any offerings, sales or contract information should not only focus on the subject property itself, but overall marketing conditions, using a local MLS or provider of such information that supports the market narration described previously—inclining or declining, stable vs. over supply and/or extended marketing times. Discuss the number and types of sales, listings, pendings, expireds, and trends identified, including owner occupied/tenancy. Including graphs in the addenda to support these findings also lends to a visualization of the market. Cite the sources and dates of the data you used.

Lease information will also support overall market conditions. If the subject is encumbered by a long term lease—rights appraised are subject to change. Additional MLS information will lend support towards market conditions for rental properties—thus having increasing or decreasing rents or an overabundance of vacancies.

A statement with regard to the use of the real estate existing as of the date of value and the use of the real estate reflected in the appraisal is a result of the appraiser's opinion of Highest and Best Use. This statement serves as an introduction to the conclusion reached in developing the Highest and Best Use both as vacant and improved.

CHAPTER III

HIGHEST & BEST USE ANALYSIS

Review USPAP's Standard Rule 1-3, as part of the development of the highest and best use discussion.

The highest and best use of the subject property is the most important, fundamental and critical section of all valuation steps. The selection of the appropriate highest and best use is essential in the appraisal process. The selection is generally made before the specific data is obtained so that the information collected will be relative to the subject property's use.

All of the data previously collected by the appraiser is vital to his/her ability to make a judgment as to the highest and best use of the subject.

Two separate studies are necessary:

1. An **analysis** of the site as vacant;
2. An **analysis** of the site as improved.

The process of determining the highest and best use of a site or of an improved property is the same for both income and residential properties. The appraiser must employ and report the techniques for testing

A highest and best use definition may be found in several of the published texts on Residential Real Estate Appraising. Merely stating the definition does not suffice for analyzing the H&B use.

The appraiser must report the results of the test for both vacant and improved. Questions within this test include:

1. Is the use physically possible?
2. Is the use legally permissible?
3. Is the use financially feasible?
4. Is the use reasonably probable?

Note: Each question should be answered, for site as though vacant **and** as improved, with adequate discussion and analysis. Simply stating the subject is a single family dwelling in an area of single family dwellings is not adequate. Discuss the types (design, age, size, etc) of single family dwellings with current market activity, and compare/contrast the subject to those properties.

SITE ANALYSIS

The site analysis will contain information on:

1. Description of the site
2. Flood Zone
3. Zoning
4. Taxes and Assessments
5. Environmental Issues

Detailed description of the land being appraised will include narration on the location. This conveys to the reader the subject's location and situation within the neighborhood.

Dimension, shape, and size (acres, square feet) must be described. Any utilities and services, including street improvements, that are present, not present, or planned near the subject site, should also be explained.

The description of the topography, tree cover and soil conditions, and any pertinent facts pertaining to the terrain that affect value must be narrated; this might include ingress and egress.

A statement should be made about the drainage and the existence of a flood plain. As stated prior, the FEMA FIRM map, including the panel number and effective date, should be utilized if the property is in a flood plain, and should be referenced, even if the site is not in a flood hazard area.

Zoning information and discussion of requirements, restrictions, etc. may have an impact on value. This also dictates the selection of sales and any adjustments that may be noted and supported by market reaction to any restrictions. Sales selected should have similar zoning. State or discuss if the subject is in compliance with the current zoning or is grandfathered, legal non-conforming, or if there is no zoning, and the impact on the market.

Restrictive covenants, deed restrictions, easements, special assessments, if any, should be discussed in detail, indicating any impact on value; however, no legal opinion is offered or implied.

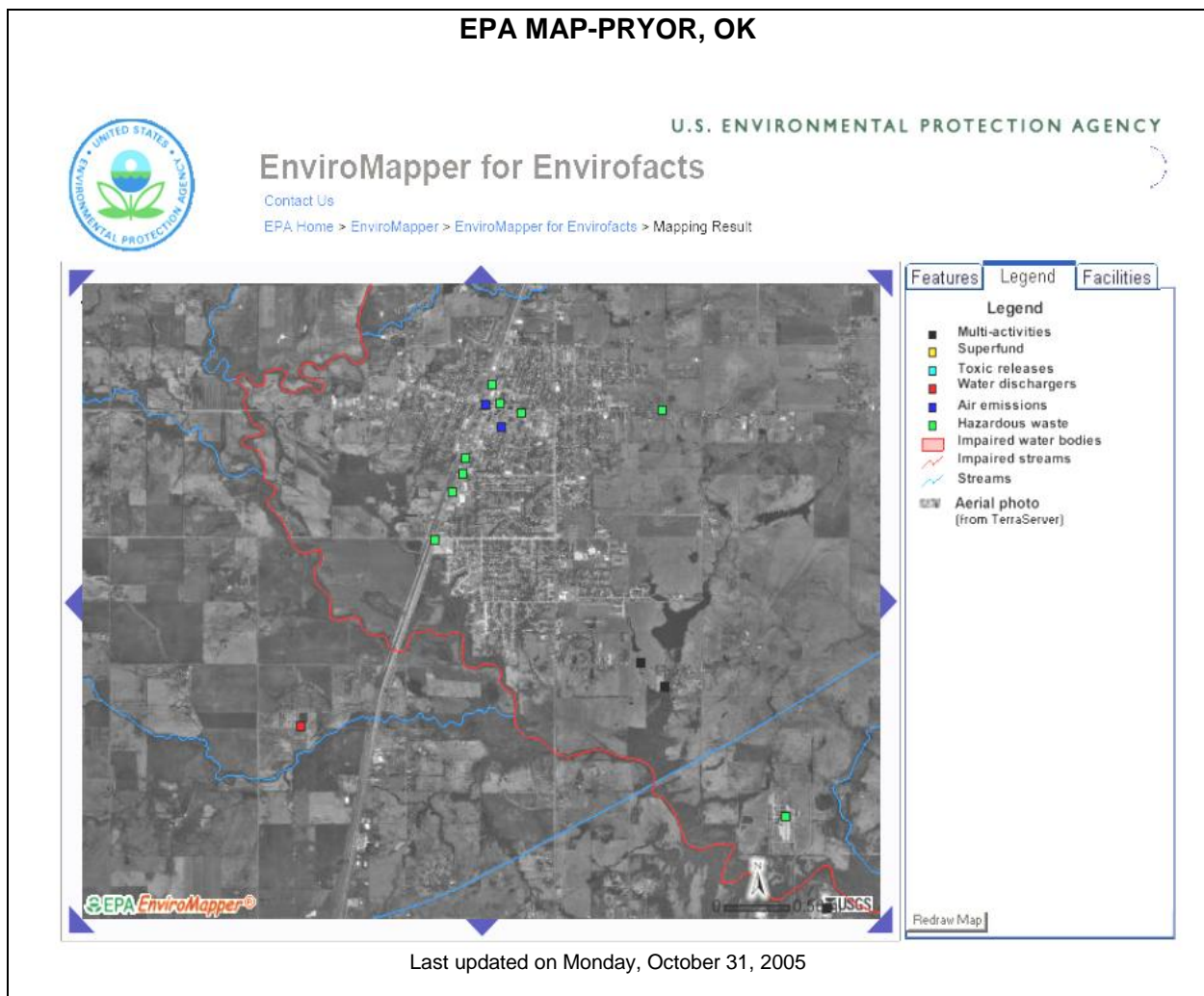
A plot or site plan showing the size, dimensions and the property's relationship to adjacent roads or right-of-way should be included. All maps should include a north arrow. This map should also include the relationship of the structure(s) to the lot lines.

Within this section taxes and assessments can be addressed. Explain how properties are assessed and how often. A statement as to the conformity of the subject's assessments to similar improvements should be made. Display the taxes and the breakdown between assessed land and improvement. Taxes may also be included as part of the "basic" information about the subject, earlier in the report.

The appraiser is not typically held to be an expert in the environmental field, unless one has attained a specific education and certification in this area. USPAP provides governance on environmental issues.

The appraiser may also search the vicinity of the subject property by accessing **EnviroMapper for Envirofacts** at www.epa.gov/enviro/emef/. This site provides interactive maps and aerial photography to display facility-based information from the Envirofacts Warehouse. These maps can be added to the addenda section for further clarification and understanding by the reader of the report. If items of concern are noted on the map—the appraiser should recommend an environmental specialist to ascertain the degree of impact of the sites; with the appraiser reserving the right to readdress the final value based upon any inspections. Turning a blind eye and citing a canned statement without benefit of a cursory research is in fact a dereliction of due diligence.

Example (place within the addenda section) the map is of Pryor, OK which shows impaired streams.



There are many arguments, pro and con, for the appraiser to exercise this type of search. The NAIFA has no expectations of the appraiser being an environmental “expert”. This serves to demonstrate your knowledge of the area, and is also a good tool to utilize when in doubt of extended or newly developed areas which may be impacted. This demonstrates the appraiser’s ability to know when to call for inspections.

IMPROVEMENT ANALYSIS

The narrative should provide a descriptive and logical “walk” through the structure, beginning with the exterior construction detail and proceeding in any order through the interior of the subject. This description should include foundation, construction, wall covering (e.g. paint, wallpaper, paneling, ceramic, plastic tile, etc.), ceiling height, floor covering (e.g. wall-to-wall carpeting, wood, vinyl, tile, linoleum, etc.), and room layout to include function, count, etc. Any special features, or the lack thereof, should be discussed, including features such as ceiling treatments, special windows, millwork, interior doors, and additional cabinetry. Also, mechanical systems (kitchen built-ins, furnace, water heater, electrical system, plumbing, etc.) should be detailed. The purpose is to draw a narrative picture for the reader, as if the reader were walking through the structure and viewing the total entity. The quality and condition of each improvement should be noted. Address size, adequacy, and conformity of the improvements. Discuss amenities, such as porches, decks, patios, pools, fireplaces, jetted tubs, and saunas.

The actual and effective age should be discussed in narrative form. Any deferred maintenance and incurable physical deterioration, as well as functional obsolescence, must be reported in detail. Remember to include both interior and exterior photographs; these serve to support the appraiser’s judgment call on upgrades and or fully depreciated short-lived items. These items set the stage for completing the cost approach to value and demonstrating your knowledge of curable and incurable depreciation.

A brief but complete description of the exterior dimensions and size in square feet should be included in the narrative description of the improvements, as well as a sketch denoting exterior dimensions. The sketch can be inserted within the report near the narration or within the addenda.

The appraiser should also note the conformity of the subject to the neighborhood.

CHAPTER IV

THE COST APPROACH

Review USPAP’s Standards Rule 1-4, as part of the development of the cost approach. Below is a table to use as a checklist for the cost approach section of the report.

Is the process defined?	
Is there adequate support for the land value?	
Is there adequate support for the building cost estimate?	
Is an acceptable method used to estimate accrued depreciation?	
Are all forms of depreciation supported?	
Is the cost approach summary acceptable?	

COST APPROACH

Define and explain the process, remembering to reference applicable economic principles and how they pertain to the cost approach. Use your own words! An example of a lead-in paragraph:

The Cost Approach, sometimes referred to as the Summation Approach, is one of the value indicators. This approach involves estimating the cost of building improvements as of the date of appraisal, depreciating those improvements to present value and adding the value of the site/land to arrive at the indicated value of the property.

Describe land sales. Many appraisers, who complete form reports, will note that the land is now the first part of the Cost Approach to Value, which is only logical.

This section should include:

- ✓ Explanation of the land evaluation process
- ✓ Selection of the appropriate method(s) of evaluation
- ✓ Listings of comparable land sales
- ✓ Discussion of individual land sales
- ✓ Land summary, chart or table
- ✓ Selection of the selling unit (square foot, acre)
- ✓ Land sales map
- ✓ Adjustment grid
- ✓ Reconciliation
- ✓ Land value opinion

LAND VALUE

Discussion on the several methods of developing an opinion of land value and the method(s) selected by the appraiser should be included.

Land value is best developed from sufficient, factual market data, then reported in a narrative format. Reduce data to a unit of comparison such as acre, square foot and/or front foot, and justify your choice of this element of comparison. Lead the reader logically to the conclusion of value. Explain and justify any adjustments based on a careful market analysis for time, conditions of sale, location and physical characteristics. The land residual approach should be used only in the absence of data for comparison and only when essential information is available to establish a sound basis for a residual approach. Provide legal recording data including, but not limited to, the buyer and seller, date of sale, price and method of verification, for each of the land sales used.

Each sale must be related to the reader in narrative format. The narration should include all pertinent data necessary to describe the comparable land sales, enabling the reader to visualize each site. This will be detailed in the adjustment grid by means of units of comparison. Justification of adjustments must be explained by acceptable appraisal standards and techniques. A statement "MARKET INDICATORS" is not considered acceptable justification of adjustments.

Example

Explanation of land sales adjustments:

Sale No. 2 has the same front footage as the subject and required a plus (+) \$3,000 adjustment for clearing and filling to an elevation to meet Parish restrictions. Bids from three earth-moving contractors (see addenda) indicated a cost of \$3,000 based on \$0.33 per sq. ft. ($\$0.33 \times 9,000 \text{ sq. ft.} = \$3,000$)

Sale No. 3 required a plus (+) \$1,140 adjustment for time, based on appreciation for 12 months at 10%. This sale was in March 1984 (3/84). $\$19,500 \times .10 = \$1,950$ divided by 12 months = $\$162.50 \times 7$ months = $\$1,137.50$, rounded off to \$1,140. This sale also requires a plus (+) \$10,250 for size as explained earlier.....

Sample Grid

	Description	SALE NO. 1		SALE NO. 2		SALE NO. 3	
		Description	Adj.	Description	Adj.	Description	Adj.
ADDRESS	Delaware	Sq. 30 Lot 35,36 Arizona Ave		Sq 147 Lots 35-36 Delaware		Sq 147 Lots 37-38 Delaware	
Proximity To subject		7 Blocks		8 Blocks		8 Blocks	
Sales Price		\$20,500		\$27,750		\$19,500	
Price Per FFt./SF/Acre		\$ 410.00		\$ 370.00		\$ 390.00	
Zoning	Residential	Residential		Residential		Residential	
Time of sale	Current	6/2004	-0-	9/2004	-0-	3/2004	+1,140
Location	Average	Average		Average		Average	
Size	75 x 127.5	50 x 120	+10,250	75 x 120	-0-	50 x 120	+10,250
Topography	Prepared	Prepared		Inferior	+3,000	Prepared	
Plus (+) Minus (-) Adjustments			+10,250		+3,000		+11,390
ADJUSTED VALUE			\$30,750		\$30,750		\$30,890

Typically five land sales should be considered. At the conclusion of adjusting these sales, the appraiser narrates his/her reasons why one sale is more comparable than another—the correlation of the comparable land sales. It is here that the appraiser fully describes the differences between the comparables and his/her reasons for selecting the best. The purpose is to enable the reader to understand the conclusion of value.

A map showing the comparable land sales may be presented after the grid or placed within the addenda section. The final estimate of land value should be clearly stated as the last sentence of this section.

Example

Estimated value of the subject site is:

Thirty Thousand Eight Hundred Dollars (rounded)
\$30,800

If the property is in a fully developed neighborhood, and the sales comparison approach cannot be used to develop an opinion of site value, then a detailed discussion, with specific data, must ensue, providing details on the process of developing the opinion of land value, using one of the alternate methods for developing an opinion of site value.

IMPROVEMENT VALUE

To effect this valuation, the appraiser should be familiar with local construction practices, building code ordinances, and building materials normally used in the area. The best sources for obtaining the foregoing information would likely be national cost services, i.e. Marshall and Swift and others, as well as local contractors and suppliers.

The two types of costs generally estimated by appraisers are Replacement Cost and Reproduction Cost. Recognition of the difference between them is necessary to understand this point.

Reproduction Cost – The cost to create a replica of subject’s improvements using identical materials and original construction practice, including design, functional layout, workmanship, inadequacies and super adequacies.

Replacement Cost – The cost to build a dwelling with the same functional utility as a subject’s improvements, employing present construction practices and materials, design, and functional layout. For a new structure, reproduction cost equals replacement cost.

Most appraisal assignments require the development of replacement cost. The exception could be assignments involving historical properties, or properties with unique characteristics or building materials. In such cases, reproduction cost would likely be an appropriate choice.

Replacement Cost Estimate

Support your estimated cost new. Greater credence can be obtained by using two methods. If a cost service is used, the source material should be specifically identified, and the unit price adequately analyzed and adjusted to the subject property with all calculations shown. If a local cost estimator or contractor supplies cost guides, a minimum of three or more sources must be used to develop a trend to support the value conclusion. If reference is made to recently-completed comparable structures, costs must be identified and analyzed with appropriate adjustments made to the subject property.

There are many forms available that the appraiser can incorporate into the report to demonstrate a line by line calculation of the cost approach. The form should be self-explanatory, and if not, the appraiser should provide steps in guiding the reader through the form.

The sample on the following page is from the Marshall & Swift Cost Guide. There are several items not completed on this partial cost breakdown--it has only been included for demonstration purpose. This is not the only form that can be utilized. The appraiser may utilize any form or even create a form using Word (table) or Excel worksheet. What the appraiser should ask: “Can a homeowner or someone not knowledgeable of my profession read and understand this form without additional narration?” If not, start the narration process.



SQUARE FOOT APPRAISAL FORM

For subscribers using the Residential Cost Handbook and for Estimating Products

Property Owner <u>Joe Homeowner</u>	Date <u>2/1/2008</u>
Address <u>123 Any Street</u>	Surveyed By <u>The Appraiser</u>
City <u>Any Town</u>	Cost as of <u>March, 2008</u>
State/Province <u>FL</u> Zip/Postal Code <u>33950</u>	Appraisal For _____

Type <u>Single-family Residence</u>	Quality <u>3.00</u> Average	Total Floor Area <u>1,560</u>
Style <u>one story 100%</u>		Number of Units _____
Exterior Walls <u>Frame, siding, vinyl 100%</u>		Interior Wall Height <u>8</u>
		Basement Depth _____
Age <u>12</u> Condition <u>3.00</u> Average	Region <input type="checkbox"/> Western <input type="checkbox"/> Central <input checked="" type="checkbox"/> Eastern	

	Factor	Quantity	Cost	Extended Cost
1. COMPUTE RESIDENCE BASIC COST	1.000	1,560	76.83	\$ 119,855
Square Foot and Lump Sum Adjustments				+ -
2. Roofing <u>Comp. shingle or built-up Rock</u>				
3. Energy: <input checked="" type="checkbox"/> Mild <input type="checkbox"/> Moderate <input type="checkbox"/> Extreme <input type="checkbox"/> Superinsulated		1,560	-1.13	- (1,763)
4. Foundation: <input checked="" type="checkbox"/> Mild <input type="checkbox"/> Moderate <input type="checkbox"/> Extreme Hillside: <input checked="" type="checkbox"/> Flat <input type="checkbox"/> Moderate <input type="checkbox"/> Steep		1,560	-2.30	- (3,588)
5. Seismic: <input checked="" type="checkbox"/> None <input type="checkbox"/> 1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 Wind: <input checked="" type="checkbox"/> No <input type="checkbox"/> Yes				
6. Subfloor <u>Raised subfloor</u>				
7. Floor Insulation: <input type="checkbox"/> Mild <input type="checkbox"/> Moderate <input type="checkbox"/> Extreme				
8. Floor Cover <u>Floor Cover Allowance</u>		1,560	3.20	+ 4,992
9. Plaster Interior				
10. Heating/Cooling <u>Warmed & Cooled Air</u>		1,560	1.78	+ 2,777
11. Plumbing Fixtures: <u>Total 8 Base 8</u>				
12. Plumbing Rough-ins: <u>Total 1 Base 1</u>				
13. Dormers				
14. Fireplaces				
15. Built-in Appliances <u>Appliance Allowance</u>				+ 2,575
16. SUBTOTAL: ADJUSTED RESIDENCE COST: Total of Lines 1 to 15.		1,560	80.03	\$ 124,848
17. Basement				
18. Porches, Decks, Breezeways, etc.				
19. Balconies				
20. Exterior Stairways				
21. SUBTOTAL: RESIDENCE COST: Total of Lines 16 and 20.		1,560	80.03	\$ 124,848
22. Garages/Carports				
23. SUBTOTAL OF ALL BUILDING IMPROVEMENTS: Total of Lines 21 and 22.		1,560	80.03	\$ 124,848
24. Multipliers: <u>Current Cost (.96) X Local (1.01) X Other (1.00)</u>				0.97
25. Additional Components				
26. TOTAL BUILDING COST NEW: Line 23 x Line 24 + Line25.		1,560	77.63	\$ 121,103
27. Depreciation: Physical and Functional				13,321
28. External and/or Excessive Functional Obsolescence				
29. Additional Depreciation				
30. TOTAL DEPRECIATED COST: Line 26 - Lines 27 to 29.		1,560	69.09	\$ 107,782
31. Yard Improvements				
32. Miscellaneous				
33. Land/Site Value				
34. TOTAL INDICATED VALUE: Total of Lines 30 to 33.		1,560	69.09	\$ 107,782

FORM 1007

DEPRECIATION

Depreciation must be explained. There are three types of depreciation: physical deterioration, curable and incurable; functional obsolescence, curable and incurable; and external (economic) obsolescence. All three types of depreciation **must be defined and explained**.

The subject property **must** suffer a loss in value from either functional or external obsolescence, to demonstrate that the candidate understands depreciation and related calculations. The factual treatment of the type of depreciation found in the subject property must be substantiated by market experience, to the fullest possible extent.

The detailed description of the subject improvement will assist in identifying those items/components of the unit that suffer from physical curable or incurable depreciation. Functional will be based on the market in identifying what is lacking in the subject.

On the following pages are examples of how this can be reported. The appraiser must identify and describe, in a narrative format, how the depreciation was calculated. This is only an example and the appraiser can use any preferred professional format.

1. Replacement Cost

Curable physical – short lived components			
	Replacement cost	Cost to cure	Remainder
Roof cover (repair)	\$2500	\$200	\$2300
Painting*	\$700	\$800	\$ 0
		\$1000	
*Cost to cure exceeds cost due to additional labor and preparation work not involved in new construction.			

2. Replacement cost

Incurable physical depreciation – short-lived components					
	Replacement cost	Effective age	Useful life	Depreciation in %	Depreciation in \$
Roof cover	\$2500	10	15	67%	\$1675
Plumbing fixtures	\$2000	10	20	50%	\$1000
Electrical fixtures	\$3000	8	10	80%	\$2400
	\$7500				\$5075

3. Replacement cost of incurable, physical depreciation, long-lived components

Replacement cost (determined by cost manual)		\$95,900
Short-lived		
Curable physical	\$1000	
Incurable physical	\$5075	
Total short lived		(\$6075)
Incurable physical depreciation		
Effective age = 5 years		(\$8982)
Economic life = 50 years		Rounded to
$5/50 = 1/10 = 10\% = 0.10$		(\$8900)

4. Curable functional obsolescence

Add bathroom		
Cost to install in the existing structure	\$1500	
Cost to install if the structure were being built new as of the date of the appraisal	(\$900)	
Loss in value		\$600

5. Incurable functional obsolescence

Measured by capitalization or rent loss due to deficiency. The net income loss (or the gross income loss, if the gross income is used) is capitalized by the rate or multiplier developed in the income capitalization approach.

Estimated gross (annual) rent loss due to depreciation (\$50 x 12 months)	\$600
Gross rent multiplier = 10	x 10
Estimated functional incurable loss in value due to deficiency	\$6000

6. External (or economic) obsolescence

External obsolescence is due to factors outside of the subject property itself. As an example, if the subject is located along a major artery, impacted by noise and air quality concerns, there may be a measurable rent loss. This is calculated in the same manner as functional obsolescence.

Estimated annual loss due to location (\$25 x 12 months)	\$300
Gross rent multiplier = 10	x 10
Estimated loss in value due to external obsolescence	\$3000

7. Summary

Replacement cost new			\$95,900
Total estimates of physical depreciation			
Physical curable, deferred maintenance	\$1000		
Physical incurable, short-lived items	\$5075		
Physical incurable, long-lived items	\$8900		
Total physical depreciation		\$14,975	
Functional obsolescence			
Functional curable	\$600		
Functional incurable	\$6000		
Total		\$6,600	
External (economic) obsolescence			
		\$3,000	
Total accrued depreciation			
		\$24,575	
Estimated replacement cost less accrued depreciation			\$71,325
Estimated land value			\$20,000
Value indicated by the cost approach			\$91,325
Value indicated by the cost approach (rounded)			\$91,300

Final estimate of value by the cost approach:

NINETY-ONE THOUSAND THREE HUNDRED DOLLARS

(\$91,300)

CHAPTER V

SALES COMPARISON APPROACH

Review USPAP's Standards Rule 1-4, as part of the development of the sales comparison approach. Below is a table to use as a checklist for the sales comparison approach section of the report.

Is the process defined?	
Is the comparable sales data complete?	
Is the adjustment analysis satisfactory?	
Is the rationale explained and supported for each adjustment?	
Is the market value reconciled correctly?	

SALES COMPARISON APPROACH--*The underlying valuation concept for this approach is predicated on the basis that people in the marketplace buy by comparison. This approach is accomplished by comparing sales of similar properties to the subject property and by making appropriate adjustments for salient dissimilarities. Using this approach the appraiser is interpreting the actions of buyers and sellers in an open market. This technique is based primarily on the economic principle of substitution, which simply means that if a property is replaceable; its value tends to be set by the cost of acquiring an equally desirable substitute property.*

The above is an example of a paragraph explaining the sales comparison approach and is used as a lead into further analysis. **It should not be copied verbatim.**

It is suggested that a minimum of five or six comparables be used for demonstration purposes. Selected sales should be truly comparable. A \$50,000 house/commercial property cannot be used as a comparable for a \$30,000 house/commercial property.

Sales grids can be developed using Word (table feature), Excel (worksheet), or by using a standard sales grid from a form report.

FEATURE	SUBJECT	COMPARABLE SALE NO. 1			COMPARABLE SALE NO. 2			COMPARABLE SALE NO. 3				
Address												
Proximity to Subject												
Sale Price	\$		\$		\$		\$		\$			
Sale Price/Gross Liv. Area	\$	sq. ft.	\$	sq. ft.	\$	sq. ft.	\$	sq. ft.	\$	sq. ft.		
Data Source(s)												
Verification Source(s)												
VALUE ADJUSTMENTS	DESCRIPTION	DESCRIPTION	+(-) \$ Adjustment	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	Total	Bdms.	Baths	Total	Bdms.	Baths	Total	Bdms.	Baths	Total	Bdms.	Baths
Room Count												
Gross Living Area		sq. ft.		sq. ft.		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)			<input type="checkbox"/> + <input type="checkbox"/> -	\$	<input type="checkbox"/> + <input type="checkbox"/> -	\$	<input type="checkbox"/> + <input type="checkbox"/> -	\$	<input type="checkbox"/> + <input type="checkbox"/> -	\$		
Adjusted Sale Price			Net Adj.	%	Net Adj.	%	Net Adj.	%	Net Adj.	%		
of Comparables			Gross Adj.	%	Gross Adj.	%	Gross Adj.	%	Gross Adj.	%		

If utilizing the grid from a form report, print in PDF and then copy and paste that section of the form into your Word document, or a letter size form page can be inserted into your final PDF copy, in the appropriate location. Additionally, a table configured to resemble the above format and only citing those relevant characteristics for which adjustments will be made would also be acceptable. See example on next page

Item	Subject Address	Comparable Sale 1			Comparable Sale 2			Comparable Sale 3			Comparable Sale 4				
		Address			Address			Address			Address				
Prox. To subj.															
Sales Price				225,000			215,000			210,000			235,000		
Price/Liv Area															
Sale Concessions															
Date of Sale															
Time Adj.															
Location															
Site Size															
Quality Const.															
Actual Age															
Effective Age															
Condition															
Room Count	Total	BR	Bths	Total	BR	Bths	Total	BR	Bths	Total	BR	Bths			
	7	3	2	6	3	2	7	3	2	7	3	2.5			
Total GLA	1,786			1,700			1,711			1,809			1,786		
Functional Utility															
Air Conditioning	Central H/A	Central H/A			Central H/A			Central H/A			Central H/A				
Car Storage	2 garage att	2 garage att			3 garage att			2 garage att			3 garage att				
Porch/Patio	Screen Porch	Enc porch			Patio			Enc porch			Screen porch				
Other	None	In-ground Pool			None			None			Tennis Court				
Net Adjustment		<input type="checkbox"/> Plus <input type="checkbox"/> Minus			<input type="checkbox"/> Plus <input type="checkbox"/> Minus			<input type="checkbox"/> Plus <input type="checkbox"/> Minus			<input type="checkbox"/> Plus <input type="checkbox"/> Minus				
Indicated Value of subject															

This is only a sample and can be configured in a landscape format. After presenting the comparable sales in chart or table format, the appraiser should prepare a narrative description of each comparable or, using a chart format, provide the reader a more detailed description of the market sale. A photo of the comparable can be placed on this page. See example next page.

Example

Comparable Sale No. 1



Property Address

GRANTOR	Elmer J. Smith	AGE/CONDITION	4 years/Average
GRANTEE	Jim L. Burke	SIZE	1,136 sq. ft.
DATE OF SALE	February 2, (year)	ROOM COUNT	6-3-2
		BASEMENT	None
DATE RECORDED	February 7, (year)	CAR STORAGE	One Car carport
BOOK/PAGE	595-271	PORCHES	Covered front
LOT NUMBER	260	CONSTRUCTION	Frame
SUBDIVISION	Rolling Hills	LOT SIZE	75' x 145.6'
CONSIDERATION	\$226,500	UTILITIES	Public Water/Sewer
VERIFIED BY	Grantee	EXTRAS	Fireplace
ASSESSED VALUE	\$140,000		Finished Storage
FINANCING	Conventional		Central H/A

Or provide a photo of the comparable sale and a descriptive narration of the sale:

Comparable #9 is located approximately one block south of the subject in an average residential community of homogenous structures. The site is 75' x 100' containing 7,500 square feet, without benefit of survey. The comparable consists of a 30-year-old aluminum-clad, ranch-style, single-family residence built on a concrete slab foundation. It contains four rooms, two bedrooms and one bath. The comparable contains 840 square feet. The exterior construction consists of aluminum walls, asphalt shingle roof, aluminum gutter and down spout. The interior construction consists of painted plasterboard walls, ceramic tile and Z-brick; floor cover of wall-to-wall carpet, linoleum and ceramic tile; and modernized, upgraded fixtures. The comparable contains one level, including a living room; one kitchen with wood cabinets, built-in range and dishwasher; two bedrooms; and one full bath with ceramic tile floor and tub enclosure. Heat is by means of a gas forced warm air furnace, with central air conditioning. Hot water is by means of a 40 US gallon gas heater. There is 100 ampere electrical service of circuit breaker type. There are aluminum storms/screens hung on the exterior of the wood double-hung windows, 5' x 7' steel storage shed, and a covered concrete patio. There was no functional obsolescence observed because two bedrooms are typical for the area. The property sold May of (day and year) by means of FHA financing utilizing four points for a gross sales price of\$35,000.

The next step is to adequately explain the adjustment process from the grid previously presented. As an example of the method to be utilized, to explain adjustments in a narrative format, one typical adjustment, TIME, the following example is provided:

Time: To estimate a time increase for the neighborhood, dwellings were found that had sold and later resold in a reasonable time period, without any major improvements or deferred maintenance between sales. It is important to be consistent throughout the report. In other words, if the general economy is weak, there is a strong possibility that there is no automatic upward dollar adjustment for time, or vice versa. As a reminder, when developing time adjustments, the date of the contract (meeting of the minds) is used, rather than the date of closing.

After searching the deed transfers in the County Courthouse (cite source), there were only five recent resale's found in this area. Of these five, one was found to be a distress sale and two had been improved between sales, leaving only two resale's which would be indicative of a time increase for the neighborhood. However, after consulting local brokers, three houses were found in this area which, under contract, had sold previously, and no improvements were made between sales. Although these properties are not true sales, because they have not yet closed, it is judged that they are indicative of the market and can be considered in estimating a time increase.

The two sales located were:

Resale #1: 2922 Fox Drive, under contract in August of 1977, for \$34,500 and again in October of 1979 for \$37,900, indicating a monthly increase of 0.38%

Resale #2: 3088 Glenwood, sold in September of 1977, for \$27,500 and again in February of 1979 for \$29,000, indicating a monthly increase of 0.32%.

The three sales with contracts were:

Resale #3: 4009 West, sold in April of 1978 for \$37,500 and is presently under contract for \$40,000, indicating a monthly increase of 0.37%.

Resale #4: 3922 Butler sold in April of 1978 for \$23,000 and is presently under contract for \$24,750, indicating a monthly increase of 0.42%.

Resale #5: 3032 Fox Drive, sold in June of 1978, for \$39,500 and is presently under contract for \$41,800, indicating a monthly increase of 0.36%.

After analyzing the data available, I could find no conclusive evidence that properties outside the city limits in this subdivision were increasing at a higher or lower rate than properties within the city limits.

The five monthly increases listed above were: 0.32%, 0.36%, 0.37%, 0.38% and 0.42%. A time increase of 0.37% was selected (an increase for 4009 West), due to its proximity to most comparables used in the sales comparison approach. This contract was very near to closing as of the date of this report. This figure is also statistically supported by an arithmetic mean (0.37%) and a median (0.37%). A chart is shown below.

No.	Sale Price	Sale Date	Resale Date	Sale Price	Time Mos.	% Inc.	Year Inc.	Mo Inc.
1	\$34,500	08/77	10/79	\$37,900	26/Mo.	9.86	4.56	.38%
2	\$27,500	08/77	02/79	\$29,000	17/Mo.	5.51	3.86	.32%
3	\$37,500	04/78	Contract	\$40,000	18/Mo.	6.67	4.45	.37%
4	\$23,000	04/79	Contract	\$24,500	18/Mo.	7.6	5.07	.42%
5	\$39,500	06/78	Contract	\$41,800	16/Mo.	5.8	4.35	.36%

An additional example of an adjustment: *Fireplace*

Fireplace: All four comparables used in the direct market sales comparison had masonry fireplaces and the subject does not. The value of the fireplace is abstracted from a paired analysis of market sales numbers seven and eight. Market sale number seven is a new brick structure with a masonry fireplace. Market sale number eight is identical in all respects except that it is brick and frame, and has no fireplace. These sales are recent and sold within a month of each other; thus, an adjustment for time is not made. Comparable number seven sold for \$34,500 and comparable number eight sold for \$32,000.

The \$2,500 difference is attributed to the benefits of brick exterior walls and a fireplace, over brick and frame walls and no fireplace. The \$2,500 less \$1,100 abstracted previously for exterior walls indicates a contributing value of \$1,400 to the fireplace as calculated below.

Comparable number six sale price	\$34,500	
Less exterior wall adjustment	<u>- 1,100</u>	
		\$33,400
Comparable number seven sale price		<u>- 32,000</u>
Resulting difference attributable to fireplace		\$ 1,400

PARTIAL EXAMPLE ADJUSTMENT GRID

	SUBJECT			SALE #1				
Address	544 El Toro			2177 Patricia Lane				
Sales Price							\$86,000	
							Adjustment	
							Plus	Minus
Prox. to subject				2 Blocks				
Days on Market				57				
Date of Sale	Present			5 months ago				
Seller Concessions				\$3,500 closing				
Location	Good			Good				
Site	Good/all utilities			Good/all utilities				
Type of Const.	Brick/Aluminum			Brick/Aluminum				
Age	3 years			3.5 years				
Lot Size	100 x 120			102 x 108				
Condition								
Living Room Area	Total	Bdrms	Baths	Total	Bdrms	Baths		
Count & Total	7	3	2.5	7	3	2.5		
Gross Living Area	1,933		Sq. Ft.	1,993		Sq. Ft.		2,400
Basement	677 sq. ft. Unfinished			675 sq. ft. Unfinished				
Functional Utility	Good			Good				
Air Conditioning	Central			Central refrigerated				500
Garage/Carport	2 car garage attached			2 car garage attached				
Patios/Porches	One patio			One patio				
Fireplace	One			One				
Other	Sprinkler System			None			2,000	
Total Adjustments							2,000	2,900
Net Adjustments				Minus				900
Indicated Value of Subject							\$85,100	

The type of grid on the preceding page can be utilized in a landscape format to illustrate the comparables or sales utilized to isolate features or characteristics. Remember that these dissimilarities are not based on cost but rather on what the market, the typical buyers, are willing to pay.

The market in which the subject is located will determine the dollar adjustment, regardless of how much it costs to build. An example of this would be a swimming pool. You must demonstrate how you arrived at the dollar adjustment. This explanation must be based on supportable data and presented in an understandable manner. **It is not acceptable** to make statements such as:

- “it is the appraiser’s opinion”
- “a market study indicates”
- “this appraiser believes”
- “real estate agents told me”

All adjustments must be made in dollars and not percentages. An adjustment grid must be utilized, as the one presented, or you may design your own. It is recommended that the grid used allows for the various amenities. Do not use lump sum adjustments. Be sure to list your sources and verification of sales. Analyze and narrate your reasons for concluding an indicator of value from the comparable sales.

Narrative Correlation

This method of correlating may be used to corroborate data found in the marketplace to substantiate value in the Sales Comparison Approach. This is an example only.

This method is based on the principle that the comparable with the **least** dollar adjustments deserves more weight than a highly adjusted sale, because the larger the adjustment, the more probable the chance of error. The following approach has been devised as a mathematical tool for the appraiser.

There are five steps involved, as follows:

1. Establish the Weight Factor (W) for each comparable. To do this, divide the Sales Price (SP) by the dollar adjustment (A) to compute each factor.
2. Multiply each Weight Factor (W) by its respective adjusted sales price (AP).
3. Then add the products in step 2.
4. Add the Weight Factors for each selected comparable.
5. Divide the sum of the products in step 3 by the sum of the Weight Factors in step 4 to arrive at the bottom line (rounded) of the Sales Comparison Approach to value.

Example:

	Comp 3	Comp 5	Comp 6
SP	33,000	32,500	31,000
A	-3,570	-930	-1814
AP	29,430	31,750	29,186
(SP/A) = W	9.24	34.95	17.09
	9.24 x 29,430	=	271,933
	34.95 x 31,750	=	1,103,371
	17.09 x 29,186	=	498,788
	61.28		1,874,092
	1,874,092 divided by 61.28 = 30,582		
	30,582 (rounded to the nearest 100's) = \$30,600		

The next example, sales comparison technique, represents the estimate of value resulting from a weighted analysis of the comparable sales, based on the "least dollar adjustment" principle.

The Sales Comparison Technique is supported by a fundamental principle, generally underlying the sales correlation (with a few exceptions), which states that the most similar and significant sale is that sale with the least dollar amount of dissimilarities, and that this sale will exert the strongest influence on the subject for an estimated value indicator by this technique.

Example

	Sale No. 1	Sale No. 2	Sale No. 3	Sale No. 4	Sale No. 5
Sale Price	\$33,000	\$32,500	\$31,000	\$29,000	\$29,500
Total Adj's	<u>- 3,570</u>	<u>- 930</u>	<u>- 1,814</u>	<u>+ 1,000</u>	<u>+ 300</u>
Adj. Sale Price	\$29,430	\$31,570	\$29,186	\$30,000	\$29,800

After being compared with the subject and adjusted for dissimilarities, the above sales result in a range from a low of \$29,186 to a high of \$31,570. The correlation process reflects a weighted value indicator somewhere within this range.

Applying the fundamental principle of correlation described above, we observe that the exerted weight is downward from the high of the range. Now we can apply the weight (dollar pull) downward as the process indicates, by various methods.

In this case, Sale No. 2 exerts the most influence, but now much more than Sale No. 3 and somewhat more than No. 4. The percentages used are a judgment call within the range which can be supported by graphs, charts, percentages, etc., but it must be supported with some degree of validity and reliability.

Here is an example:

Sale No. 1 exerts 10% weight or $.10 \times 29430 = 2943$
Sale No. 2 exerts 35% weight or $.35 \times 31570 = 11050$
Sale No. 3 exerts 25% weight or $.25 \times 29186 = 7297$
Sale No. 4 exerts 20% weight or $.20 \times 30000 = 6000$
Sale No. 5 exerts 10% weight or $.10 \times 29800 = \underline{2980}$
30270
Rounded to \$30,300

The above percentages in the example are subjective rather than objective in nature. Thus, each appraiser uses his/her judgment in defining them. In other words, the percentages used in this example are strictly judgment calls, based on the appraiser's knowledge of the market.

There is no intent to demonstrate or condone arithmetic gimmickry in citing these examples. There is still no substitute for a complete and thorough analysis of the properties used as comparables, with a professionally reconciled conclusion. The purpose of these illustrations is to demonstrate different ways by which an appraiser may adjust value by comparing the results of the adjustments made to the sales used as comparables. There may be times that none of the cited examples works well in establishing an adjusted value. Each property to be appraised is different, and rarely do all solutions work easily. Whatever the case, the appraiser, through a careful narrative, must allow the reader to understand the logic used to develop an opinion of market value. Occasionally, it is appropriate not to use grids, especially in difficult cases where properties have many and unique differences. In such cases, a precise, detailed narrative explanation of the adjustments is appropriate. For demonstration purposes, charts and tables should be included.

CHAPTER VI

THE INCOME APPROACH

Review USPAP's Standards Rule 1-4, as part of the development of the income approach. Below is a table to use as a checklist for the income approach section of the report.

Is the process defined?	
Are narrative descriptions of the comparable rental properties included?	
Is the GRM properly developed by market supported rentals of recent sales?	
Is the market rent for the subject supported by market evidence?	
Is the market value by Gross Rent Multiplier Analysis acceptable?	

If the subject is a commercial property:	
Is the capitalization technique developed, explained, and justified?	
Is the Gross Potential Income supported and is it reasonable?	
Is the Vacancy and Credit Loss supported?	
Is other income included?	
Is the Effective Gross Income acceptable?	
Are all fixed and variable operating expenses included and are they reasonable?	
Is the Net Operating Income acceptable?	
Is the capitalization rate properly developed, reasonable, and acceptable?	

INCOME APPROACH: RESIDENTIAL

As with each valuation section—the process must be defined. Residences, unlike income-producing properties, are not typically acquired, or held, for investment purposes. It is generally concluded that income from residences is not sufficiently stable to be capitalized.

A gross (monthly) rent multiplier analysis is considered an acceptable procedure in valuing residences. There is a strong tendency for sales price and gross rent (monthly) income to move in the same direction since they are subject to the same market forces and influences. Thus, there should be a consistency of this ratio in comparable properties and markets. This strong relationship is at the core of the gross rent multiplier analysis. Because the gross rent multiplier

(GRM) tends to measure residential values based upon their capacity to produce income, this analysis is considered to be a proper and reliable indicator.

To properly develop this approach to value, the appraiser must demonstrate:

- The extraction of market (economic) rents from the marketplace for properties offering similar livability as to size, location, amenities and condition as the subject.
- Establishment of a market (economic) rent for the subject considering the dissimilarities between the subject and comparable properties.
- Calculate the Gross Monthly Multiplier (GMM) or Gross Rent Multiplier (GRM) of each comparable sale.

The Income Approach has viability in areas where rental properties are commonplace. The availability of rental data in sufficient number to make a good analysis is mandatory. The Income Approach for residential properties, in essence, has its basis in the Direct Sales Comparison Approach. An appraiser must carefully select sale properties that are comparable as described in the Direct Sales Comparison Approach in order to develop a reliable Income Approach.

If it is not possible to find comparable rental properties that have sold, similar or identical properties nearby may be considered in assisting the appraiser to determine economic rent. In any case, the appraiser must thoroughly explain how he/she arrived at his/her solution.

Example

Address	Sale Price	Mo. Rent	Annual Rent	GRM
612 Adams	\$35,000	400	4800	7.29
420 Tecumseh	\$31,000	325	3900	7.95
1026 D Street	\$28,000	275	3300	8.48
215 California	\$29,000	285	3420	8.47
634 Monroe	\$33,000	375	4500	7.33
Sources:	Acme Property Management Best Rental Agency MLS/Agent Confirmation			

Illustrate the data and then describe how it was weighted to derive the GRM applied to the market rents. A similar chart or information illustrating how market rents were obtained for the subject's estimated monthly rent should also be utilized.

INCOME APPROACH: COMMERCIAL

For the Senior (IFAS) designation, the income approach is concerned with the present worth of the future benefits of the property. Again, four basic steps are required for a value indication. These are the estimation of economic rent, expenses, economic life of the improvements, and the selection of an appropriate capitalization rate for processing the net income. In its application, the appraiser estimates a gross annual income which the property should produce to attract investors in the market.

From the gross income, expenses are subtracted to obtain a net income before recapture projection. Expenses include taxes, insurance, operating costs and maintenance costs. An estimate of the economic life of the improvements requires a determination of the probable duration of the income stream. Rate selection requires market scrutiny for an interest rate reflective of current conditions. An applicable capitalization technique is then applied, and the net income estimate is processed by the proper rate for a value estimate of the property.

The following outline is given to assist you in preparing and presenting the necessary data in a narrative report on income producing properties. There are three items necessary to consider when analyzing the income approach to value.

1. Net Income
2. Capitalization Rate or Factor
3. Value

I. Income and Expense Statement

A. Gross Annual Income

1. The income should be justified by listing comparable rental properties.
2. Use a flow chart showing the subject and the similarities of the subject.
3. Show photos of the rental comparables.
4. Locate the rental comparables on a location map.
5. Vacancy rate or credit loss as determined by the marketplace must be deducted as a percentage of the gross income.

B. Expense Statement. The report writer should prepare an understandable and accurate operating expense schedule. It should include the following items and more, if pertinent.

Fixed Expenses

1. Taxes (real estate)
2. Insurance

Operating Expenses

3. Management
4. Utilities
5. Maintenance – support
6. Reserves for replacement – support
7. Others

II. Capitalization Rate. Show the methods which best suit the particular appraisal problems.

A. Market (overall)

1. List similar sales
2. Divide by net income
3. Conclude overall rate

B. Band of Investment

1. List equity
2. List mortgages
3. Conclude a rate

C. Straight Line

1. Present interest rate
2. Remaining economic life
3. Conclude a rate

D. Factors

1. List source.
2. Give reasoning
3. Flow charts

III. Value

A. Narratively analyze your reasons for conclusions of value by the selected income technique.

1. Direct Capitalization
2. Building Residual
3. Land Residual
4. Property Residual
5. Mortgage-equity

B. List the indicated estimate of value with any additional and pertinent reasoning.

C. One or more methods of capitalization may be used. A discussion is appropriate to explain to the reader the strengths and weaknesses of each method and why one method was preferable to the other.

A final statement follows with the final estimate of value.

CHAPTER VII

CORRELATION (RECONCILIATION) & CONCLUSION

Review USPAP's Standards Rule 1-6, as part of the development of the income approach. Below is a table to use as a checklist for the income approach section of the report.

Are the results of each approach to value summarized?	
Is there an adequate, reasonable explanation of how the final opinion of value was selected?	
Is there a discussion of marketing time, and any needed adjustment?	

CORRELATION (RECONCILIATION)

The correlation, or reconciliation, is the final step in arriving at an opinion of value in your appraisal assignment. At this point, it is necessary for you to decide the impact of each of the three approaches has on the final value estimate. The decision is by no means arbitrary, but rather the result of reviewing the data collected, interpreting and analyzing it, and then selecting that approach which is most reliable, along with the effect the remaining approaches have.

Points to consider in correlating:

- Amount of data for each approach
- Reliability of all data
- Relevance of each approach to type of value stated in the purpose of the appraisal

Demonstrate by sound reasoning the facts and interpretations which led you to your final conclusion, bearing in mind the definition of value previously presented. At the conclusion of this narration, spell out the date of value and the final estimate of value.

Example

<p>Date (Month, day, and year) Spell Out value (\$xxx, xxx)</p>
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CHAPTER VIII

CERTIFICATIONS & QUALIFICATIONS

Review USPAP's Standards Rule 2-3 as part of the creation of the certifications. A note: The certifications may be included near the beginning of the narrative report, as discussed previously in this guide.

This, for all practical purposes, could be referred to as the end of the body of the report. An adequate certification should contain those items required by USPAP. Additional certifications must also include the required NAIFA statement. This certification must be signed.

Qualifications of the appraiser can be a brief statement as to the licensing level with a copy of the license included within the addenda. One may refer to a more comprehensive (resume) list of qualifications that can also be referred to in the addenda section. The length and detail of the qualifications are naturally dictated by the actual qualifications of the appraiser. The appraiser should be careful not to overwhelm the client. One or two pages of qualifications are usually adequate. The appraiser should list qualifications that pertain to those items that **could** cause the appraiser to be an expert in the field of real estate. Candidates must use caution in their reference to membership and clearly spell out the candidate status.

An accepted list of qualifications for the appraiser could be adequately divided into four headings.

Example

QUALIFICATIONS OF (Appraiser's Name)	
EDUCATION	College Universities Professional Courses, Seminars
PROFESSIONAL EXPERIENCE	Appraisers licensing number and type Appraisal Experience Types of properties appraised
PROFESSIONAL MEMBERSHIPS	Appraisal Organizations Realtor Organizations Others
CLIENTS SERVED	Banks Savings and Loans Mortgage Companies Finance Companies etc.

CHAPTER IX

ADDENDA

ADDENDUM OR EXHIBITS

Most good appraisal reports should contain the following exhibits. Some may see fit to have some of the exhibits throughout the body of the report.

PHOTOS

1. Front views of the property. Some appraisers like to put the front view in the front of the appraisal report. The client can see immediately a picture of the property.
2. A front angle. This view will show the front and one side.
3. A rear angle. This view should show the rear and the opposite sides.
4. Photos of any improvements that affect value. This would be such items as swimming pools, gardens, orchards, outbuildings, etc. These might be photos of items that take away from value as well as add to value.
5. Photos of interior upgrades or deterioration.
6. Street scenes. Show the neighborhood on both sides of the subject property. An appraisal of a corner property might necessitate photos of four street scenes.
7. Aerial photos of the subject property can also be used.
8. Photos of all the sales referenced in the report, including: land, rentals, sales.

PLAT MAPS/SURVEYS

The appraisal report should have a drawing of the perimeter of the land. The drawing should show any buildings located in their respective locations. Many times a survey is available with the above inclusions and may be used. When surveys are not available, the appraiser should draw a plot plan. If a plot plan or survey is not certified by an engineer, it is advisable that it be labeled “for reference only—not to scale.”

BUILDING PLANS

The narrative report should include drawings of buildings showing partitions and room arrangements. Interior room walls help to express functional depreciation. There may be occasions when the appraiser may wish to include any available building specifications.

LOCATIONAL MAPS

A good appraisal report should have readable maps (land & improved) locating the subject property and the comparables. This should include land and rental comparables as appropriate. It may be necessary to use more than one page for maps. The maps should contain a title and a north arrow.

OTHER ITEMS

The appraiser may elect to include copies of the following documents in the narrative report. This may include items such as:

Deeds

Leases

Assessments

Protective covenants

Expense Statements

Licenses

Supportable evidence of statements made elsewhere in the report

Zoning regulations

IFAA DESIGNATION

ADDITIONAL ANALYSIS

Several additional items to consider, if you are submitting a narrative demonstration report for the IFAA designation:

Is there a detailed soil analysis?	
Is there discussion of productive indexes?	
Is there a comprehensive highest and best use analysis?	
Are farm buildings and improvements described, along with their condition and applicable obsolescence?	
Are separate capitalization rates developed for the land and each type of farm building?	
Is depreciation extracted from the income approach?	
Do the addenda include aerial photos, a sketch of the subject site including all buildings, a soils map, and any special soils data?	

IFAC DESIGNATIONS

ADDITIONAL ANALYSIS

Several additional items to consider, if you are submitting a narrative demonstration report for the IFAA designation:

Does the cover letter address necessary aspects of the assignment, including scope, unusual conditions, salient facts, and unanticipated findings?	
Is there a statement of underlying assumptions and limiting conditions?	
Is the real estate problem clearly identified and discussed?	
Is there adequate discussion of the sources and methods employed?	
Is there adequate discussion of limiting conditions and assumptions?	
Is there adequate discussion of the property and/or property interests?	
Is there adequate description of the subject property, including land, improvements, zoning and other applicable elements?	
Is there adequate description of the area and community, as well as any trends affecting the property or problem?	
Is there adequate discussion of the title, leases, contracts, or other encumbrances?	
Is there discussion of political or other constraints?	
Is there adequate discussion and analysis of comparable properties, anticipated supply and demand, and prospective buyers or the tenant market?	
Are possible alternative solutions stated, with rationale and analysis?	
Are conclusions and recommendations to the client clearly stated and supported?	
Are copies of appropriate documents, as leases or deed restrictions, included in the addenda?	
Are copies of appropriate rating grids, charts, and other exhibits included in the addenda?	

REMINDERS

- A reminder: USPAP is the **minimum** required when developing and reporting an appraisal assignment. Have you reviewed the rules (Ethics, Competency, Scope of Work, Jurisdictional Exception), Standard Rule 1 and Standard Rule 2, along with any related Advisory Opinions, to verify your demonstration report is in compliance with USPAP?
- Some key words to remember: detailed description, analysis, reconciliation
- Is your report well organized? Does one section follow another, in a logical progression?
- Does your report include all the sections referenced in this guide?
- Have you discussed the appraisal process, the approaches to value, economic principles, the research you completed?
- Have you discussed all relevant characteristics for your subject (pages U-16 and U-17 in the 2008-2009 edition of USPAP)?
- In your cost approach, have you supported all types of depreciation and provided support for your opinion of land value?
- In your sales comparison approach have you included several matched pairs, or an alternative method of developing adjustments?
- In your income approach, have you included an adequate discussion of your rentals, as well as how you derived and applied the GRM or cap rate?
- Does your report have a reconciliation that complies with Standard Rule 1-6?
- Does your addendum include everything necessary for full understanding of your report – sketch, photos, maps, public records, for example?
- Does your report contain proper spelling, grammar, punctuation, and sentence structure? Does it have a neat, professional appearance? Have you thoroughly proofread your report? Have you had someone else proofread it, too?