

Write it Better

A Study of Relevant Residential Report Writing

John T. Dingeman, MNAA
 jdingeman@landmarknetwork.com
 cell: 480.209.9636

Because Pictures Don't Always Tell the Whole Story

Why is writing so important?



Relevant Communication Scope of Work

- Recognizing the Pitfalls and Relevancy of Boiler Plate Language
- Review the Minimum Contents of an Appraisal Report based on USPAP Standard 2

Boilerplate Communication

“The ability to communicate sufficiently for the intended user and in compliance with the multi layers of regulations gives certainty that some “boiler plating” verbiage benefits the intended user and the author.

The boiler plate offers informative snapshots.”

Boilerplate

Underlining the minutes and miles makes this template flexible for future use.

What three things can you learn from this “boilerplate” example?

“The lack of close proximity to major shopping centers and public transportation is not an adverse factor in this rural location. The appeal of this rural location is centered on quiet enjoyment, lax governmental regulations on land use and proximity distance to nearest urban market being approximately 30 minutes driving distance (under 40 miles).

Boilerplate

- Client requests, state and federal laws, investor policies promote specific language be put into every Appraisal Report. Reporting needs always to be cognizant of the mandated statements with the specific assignment.

USPAP	State Law	Underwriter Guidelines	Investor Overlays
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- Developing a statement or sentence with blank lines or XXXXX in a template format can increase the strength of compliance when writing the report.
- Example: “The subject is “proposed or under construction”, as such the appraiser has been asked to condition this market value und the “specific assumption” that the improvements have been completed in a workman like manner. It must be understood this is a known false condition; if the improvements are not completed as scheduled the results of this appraisal may be impacted.”

Sample Boilerplate

ADDITIONAL

Although the final opinion of value for the subject property exceeds the predominant One-unit housing price for the subject neighborhood, it is not considered to be an over-improvement since there are many other residential properties of similar size, quality and value located in the immediate area.

According to USPS records, the Full Address for the subject property using standard abbreviations and formatting, is 1120 Burnet St, San Antonio, TX 78202 which is the address utilized in this appraisal report. This is the same as the legal physical address for the property. The address reported on the appraisal form is according to US Postal Service records as required by UAD format. The title company reports the city or county address and the title report may or may not match to USPS records.

No personal property is given value in this appraisal report.

Appraiser certifies that the appraisal was prepared in accordance with the requirements of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, as amended (12 U.S.C. 3331 et seq), and any implementing regulations.

I have no current or prospective interest in the subject property or the parties involved, and no services were performed by the appraiser within the 3 year period immediately preceding acceptance of this assignment, as an appraiser or in any capacity.

I was engaged appropriately by _____ and I completed the appraisal report in compliance with all applicable Appraiser Independence Regulations.

Outdated Boilerplate Language

Two problems with these types of "canned comments"

1. Its conventional, not FHA
2. Mortgage Letters of 2009 no longer in effect, they are part of the HUD Handbook 4000.1

The Appraiser has not performed any prior services regarding the Subject property, as an Appraiser, or in any other capacity, within the 3 year period preceding acceptance of this appraisal assignment.

As per Colorado House Bill 12-1110: Appraiser is to be compensated \$450 for this appraisal report. The amount of compensation to the Appraisal Management Company is unknown to this Appraiser, as is the cost to the consumer.

Appraiser has prepared this appraisal in full compliance with applicable Appraiser Independence requirements and Mortgage Letter 2009-28. Appraiser has not performed, participated in, nor been associated with any activity in violation of said requirements.

While the lot size of the Subject is not bracketed by the sales provided, all sales have similar appeal lot size and therefore no lot size adjustments were deemed necessary per local market data of similar over-home sales.

In arriving at the estimated market value, weighted consideration was placed on each comparable due to its specific similarities and adjustments were made to the Subject. Comparable #3 was weighted slightly higher due to the lower overall required adjustments.

Appraiser is not a home inspector and this appraisal report is not a home inspection. Appraiser performed only a visual observation of the accessible areas, and this appraisal report cannot be relied upon to disclose any conditions and/or defects to the property.

1999 word "estimate" removed from USPAP when linked with value

Minimal Reporting Requirements

There are EXHORTATIONS (the Must do's) that USPAP specifically requires:

- MUST
- MUST NOT
- REQUIRED SUMMARIES
- DESCRIBE
- PROMINENTLY STATE
- STATE
- CITE SOURCE
- INCLUDE

Minimal Reporting Requirements

Scope of Work-Contract Analysis

1. Why is the contract pending relevant to the appraisal assignment?
2. Why is the history of the past three years relevant to the appraisal assignment?
3. What should an appraiser communicate in a contract analysis?

Contract Verbiage

"An **executory** contract is a contract made by two parties in which the terms are set to be fulfilled at a later date. The contract stipulates that both sides still have duties to perform before it becomes fully executed. The contract is often in place between a debtor or borrower and another party.

Executed Contract

A contract is said to have been **executed** when **both parties have completed their obligations**. In the case of a real estate contract, that milestone comes at closing. **Until** payment and title change hands, the **contract is merely "executory"** -- capable of being executed.

Did you receive a copy of the contract?

2.3 Did you receive a copy of the contract for sale for the subject purchase transaction? Explain the results of the analysis of the contract for sale or why the analysis was not completed.	
Contract Type	Copy of Contract
Is the property under the power of public record? <input type="checkbox"/> Yes <input type="checkbox"/> No (Only Complete)	
Do there any financial assistance (loan charges, title commissions, gift of development assistance, etc.) to be paid by any party on behalf of the borrower? <input type="checkbox"/> Yes <input type="checkbox"/> No	
If the answer to the above question is "yes" describe the terms to be paid.	

Notice there are three directives of communication:

1. There must be a summary of the results of analyzing the SUBJECT sales, agreements of sale, options, and listings in accordance with SR 1-5, and
2. If such information is unobtainable, a statement on the efforts undertaken by the appraiser to obtain the information is required.
3. If such information is irrelevant, a statement acknowledging the existence of the information and citing its lack of relevance is required.

Fannie Mae Announcement 2016-09 on renegotiated contract



On December 6th Fannie Mae published announcement [SEL-2016-09](#) which should make life a little easier for appraisers. Essentially, if the sales contract is changed regarding the sales price or seller concessions, the lender is no longer required to forward that information to the appraiser.

If, however, the contract "is amended in a way that affects the description of the real property used by the appraiser, then the lender must provide the updated contract to the appraiser and the appraisal should be updated."

Note that "updated" in this context would amount to a new assignment, not just a new report.

Neighborhood Definition

Neighborhood: A residential area is a land use in which housing predominates, as opposed to industrial and commercial areas. Housing may vary significantly between, and through, residential areas. These include single-family housing, multi-family residential, or mobile homes.

- Definition from "Residential Area-Wikipedia https://en.wikipedia.org/wiki/Residential_area



Neighborhood Characteristics

Fannie Mae says, "Neighborhood characteristics and trends influence the value of one- to four-unit residences.

Therefore, an analysis of the subject property's neighborhood is a key element in the appraisal process. As a reminder, Fannie Mae purchases mortgages secured by properties in all neighborhoods and in all areas, as long as the property is acceptable as security for the mortgage based on its value and marketability.

- Excerpt from Fannie Mae Guidelines B4-1.3-03 Neighborhood Section of the Appraisal Report (9/30/2014)



Neighborhood Characteristics

Neighborhood characteristics. These can be addressed by the types of structures (detached, attached) and architectural styles in the neighborhood (such as row or townhouse, colonial, ranch, or Victorian); current land use (such as single-family residential, commercial, or industrial); typical site size (such as 10000 sf, or 2.00 ac); or street patterns or design (such as one-way street, cul-de-sac, or court).

In performing a neighborhood analysis, the appraiser

- collects pertinent data,
- conducts a visual inspection of the neighborhood to observe its physical characteristics and determine its boundaries, and
- identifies land uses and any signs that the land uses are changing.

Sentences that Don't Make Sense

The predominant value represents the predominant price for the area and actually represents only approximately 5% of the properties in the area. Consequently, the other 95% of the properties would be either below or above the predominant value. The only concern regarding the subjects value in relation to the low, high and predominant prices would be if the value was below the low price or above the high price for the area. The value of the subject is well within the established range of prices for the area

Canned Comments

What's wrong with this comment?

PREDOMINANT PRICE : The opinion of market value of \$95,000 is the same as the market area's predominant price of \$95,000. It is the appraiser's opinion that this situation does not adversely affect value, or marketability, of the Subject Property since the opinion of value is within the single family pricing range for this neighborhood.

One-Unit Housing	
PRICE	AGE
\$ (000)	(yrs)
Low	
High	
Pred.	

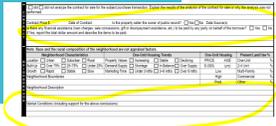
When canned comments are in place and not reviewed the sentences can be confusing. Why would there need to be an opinion about adverse affect on marketability or value when the value concluded was equal to the predominant price?

Commentary on the Neighborhood

Sales or Financing Concessions

The appraiser should report:

- in the "Neighborhood" section of the Uniform Residential Appraisal Report (URAR) **or on an addendum**, the prevalence of sales or financing concessions (for example, interest rate buy-downs, inclusion of non-realty items in the transaction, seller payment of any buyer closing costs, etc.); and
- if any comparable sale involved concessions, the effect of the concessions on the sales price of the comparable should be noted. In doing so, the appraiser should consider:
 - that the effect of financing/sales concessions can vary in different locales;
 - if the appraiser's analysis determines that the market's reaction is the full amount of the financing concession, a dollar-for-dollar adjustment is acceptable.
 - in proposed construction cases, closed sales by the same builder, sales in competitive subdivisions, and re-sales of similar existing properties.



Commentary on the Neighborhood

Marketing Time and Trend

In every case, the appraiser should:

- consider the marketing time trend (increasing or decreasing) in the subject market area, and
- report, either in the "Neighborhood" section of the URAR or on an addendum, the extent of increase or decrease in the average marketing time (listing period) in that market area. For example, "In the last 3 months, the listing period in the subject's market area decreased from 180 to 90 days."

The guidance of AO 7 (Marketing Time) states, "An Appraisal Report should include a summary of the analysis upon which that opinion is based."

Do you include in your report a summary upon which you based your stated conclusion?

FHA Required Neighborhood Analysis and Reporting

FHA States, "Required Analysis and Reporting"

- The Appraiser must analyze the broad market area first (neighborhood analysis), then analyze the specific market (direct sales comparison), and then report how the subject relates to its market area.
- The Appraiser must provide support for conclusions regarding housing trends and overall market conditions as reported in the "Neighborhood" section of the appraisal report form. The Appraiser's analysis and conclusions must be based on the information reported on this form.
- The Appraiser's study of the market affecting the subject Property must include sufficient data for a statistical analysis to be relevant.
- The Appraiser must fill in all the information to the extent it is available and reliable and must provide analysis as indicated. If any required data is unavailable or is considered unreliable, the Appraiser must provide an explanation. It is recognized that not all data sources will be able to provide data for the shaded areas on the form; if it is available, however, the Appraiser must include the data in the analysis.

Page 956 HUD Handbook 4000.1

APB "Identifying Comparable Properties"

"....Appraisers make a distinction between the neighborhood in which a property is situated and the market area in which comparable properties will be found are located. Market area is formally defined as: "the geographic or location delineation of the market for a specific category of real estate, i.e., the area in which alternative, similar properties effectively compete with the subject property in the minds of probable, potential purchasers and users. In contrast, a neighborhood is defined more generally as 'a group of complementary land uses.'"

In other words, the neighborhood boundaries in which the subject property is located may contain residential properties as well as non-residential properties that serve the residents of the neighborhood, whereas the boundaries of the market area for the subject property is based on the area in which similar properties compete with one another. In some cases, the subject property's neighborhood and market area may have the same boundaries, but in other cases the market area may contain several neighborhoods or portions of different neighborhoods. A market area is defined by the type of property, the type of transaction (rental or sale), the geographic area in which competition exists, and the homogeneity of properties within its boundaries."

There are several sources cited in this publication, "The Appraisal of Real Estate, 13th Ed., "Market Analysis for Real Estate: Concepts and Applications in Valuation and Highest and Best Use, Appraisal Institute", the user of this material is encouraged to go to www.appraisalfoundation.org and research this Valuation Advisory #4.

Factors of a Trend Analysis

"When a segmented or bifurcated market is present, the One-Unit Housing Trends portion must reflect those properties from the same segment of the market as the property being appraised. This ensures that the analysis being performed is based on competitive properties."

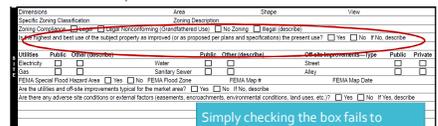
Additionally, the conclusions reported in this portion of the appraisal will be supported by the analysis contained in the Market Conditions Addendum to the Appraisal Report (Form 1004MC). The appraiser should also provide commentary on the other segment(s) of the neighborhood when segmentation is present.

Check out ACI's the "1004MC Revised" online for more info.

Highest and Best Use

SR 2-2 (a) (x) "(x) when an opinion of highest and best use was developed by the appraiser, summarize the support and rationale for that opinion;"

Advisory Opinion #11, ..." An Appraisal Report requires the appraiser to summarize the information analyzed and the reasoning that supports the analyses, opinions, and conclusions while a Restricted Appraisal Report does not have this requirement."



Simply checking the box fails to comply with the directive of SR 2-2 (a)

Are you confused?



Highest & Best Use of Property if Vacant:
 (1) Physical Possibilities - The site has few physical restrictions other than upon the size of any possible development. This provides less than optimal access for most non-residential users, but it is typical for most residential users, as will be more fully discussed below.

Highest & Best Use of Property As Improved:
 (1) Physical Possibilities - The subject was designed for single-family residential use, and it has little adaptability for other uses.

(4) Maximum Productivity - The existing residential improvements significantly contribute to the subject value and marketability. In addition the site layout and location is not ideally suited for any use other than residential and no portion of the subject site is being utilized for agricultural income or commercial purposes. In the absence of other feasible uses, a continued single-family residential use is most productive for the subject property.

Highest and Best Use - Complex

Highest and Best Use - The complexity of this assignment comes from its Excess Land which is not necessary to support the improvement and can be subdivided. The location of frontage and/or view and access to the lake places a high demand for properties in the subject's location. The size of the site is 55 acres +/-, it has approximately 5600 linear ft. that fronts the road and approximately 5000 linear ft. that fronts the Corps of Engineers property (i.e. the lake). Rural Residential lots in this area run between 1 acre to 20 acres. Anything larger than that becomes "excess land". To determine the Highest and Best Use of this 55 acre parcel I called and retrieved survey costs that include both the measuring and establishing the legal description which has a total estimated cost for both services in the amount of \$2,850. Each lot would require private utilities both well and septic. The estimated cost for those private utilities is estimated at \$25,000. As a seller the owner would only need to incur the subdivision costs. If the per acre range for parcels is between \$3,100 - \$4,300 and you deduct the cost of say 10 acre parcels it is estimated the net of the remaining land (deducting 20 hypothetical acres with the subject) would be \$122,900 for the division of similar sized parcels in the 3 lot sizes, the subject housing 20, the remainder housing 35 acres which would allow the remainder to be divided into 2- 15 acre tract and 2- 10 acre tracts +/- The projected price minus the cost of the surveys would leave a remainder in a range of \$3,000 - \$4,200 per acre. As is the depth of the site and its current configuration leaves a majority of the site as excess. Considering the 4-3-2-1 land use rule as the site becomes deeper the less valuable the per acre value. When comparing the value of the "whole" under the "as is" the per acre value is in a range between \$3,100 - \$4,300 as subdivided less the legal costs the range would be between \$3,000 - \$4,200. Based on this reasoning the Highest and Best Use of the Subject, in its "as is" condition, IS NOT in its Highest and Best Use. This is an assignment with an "as is" condition, therefore the land has been valued in its excess and discounted for the size as it is currently contained in its present legal description.

Highest and Best Use - Typical



Highest and Best Use is a land-use analysis that concludes maximum productivity of a site "as improved". Tests applied to the site are vacant and as improved are conclusions of Physical Possible Uses that are Legally Permissible and Economically Feasible resulting in the maximum productivity conclusion. In the Site section, the physical and legal characteristics are summarized as are the improvements in the Improvement section of the URAR. The conclusion of the Highest and Best Use as if it were vacant would be to improve with a detached single-family residential unit. The economic conclusions of marketability are made in comparison with the conclusions of central tendencies and market conditions reported in the Neighborhood section of the URAR. From these separate analysis, Market, Site, and Improvement, the appraiser concluded that as improved in its current use, free-standing, deeded, single-family residential (except for those items of depreciation described in the improvement section), the subject is in its Highest and Best Use as reported.

The Comparable Overview



USPAP SR 2-2(a), states in item (v), in the comment section that enhances understanding about communicating market value, "Comment: *Stating the definition of value also requires any comments needed to clearly indicate to the intended users how the definition is being applied.*" 2016-2017 Edition of USPAP 2-2(a)(v) comment section line numbers 699-701

Sample Comment for Addendum on Appraisal Report:
 "Sales Approach - The appraiser began the data gathering process by researching the ___(name the MLS)___ MLS system using the Polygram tool that defined the boundaries of the neighborhood selected by the appraiser. Although the parameter was a physically defined area its determination was inclusive of search criteria for near-like characteristics bracketing GLA, Number of Bedrooms, Bathrooms, Age, Site Size, and Site Amenities. Using that physical criteria, incorporating the functional, legal, and economic characteristics, a cumulative gathering of data provided sales whose prices represented agreements upon between sellers and buyers in a competitive market of similar properties like to the subject. Those transactions of optimum similarity was identified for the final selection to be used in the comparison approach. Market value, as defined in this report, requires the identification of central tendencies of like property types in a similar location. The differences between comparable transactions are then adjusted upward for inferior characteristics or downward for superior characteristics to create an equalization perspective between the subject and the comparable."

The Comparable Overview



State Enforcement Agencies have their perspective of compliance with USPAP in the Sales Approach step of the appraisal process:

Texas has three primary questions when investigating a complaint against an appraiser in their performance of the Sales Approach.

1. Is the Sales Comparison Approach Necessary for Credible Assignment Results; if not, has the appraiser explained and supported its exclusion?
2. Has the appraiser adequately collected, verified, and analyzed comparable sales data?
3. Has the appraiser employed recognized methods and techniques?

Obviously in the Residential Valuation process the mandate of the certification item to develop the opinion based on the Sales Approach answers Question 1, but what about questions 2 and 3?????



The Comparable Overview

Has the appraiser adequately collected, verified, and analyzed comparable sales data? The direction of USPAP states when the Sales Approach is necessary an appraiser MUST analyze such comparable sales data as are available to indicate a value conclusion. Under the development rule of SR 1-4, the appraiser MUST collect, verify, and analyze all information necessary for credible results.

Sample Comment: In the Sales Approach Grid the transactions collected and reported were judged by the appraiser to be the most similar. Verification was based on multiple data sources (such as tax records, property owners, builders, sales and listing agency) both public and private recollection (workfile shows details of the extent of verification). The comparisons where market reactions were analyzed for differences to identify the outcome of price differences. Although the sale price represents an aggregate exchange price for the real property interest when significant differences were observed, a deeper analysis for market reaction (positive and negative) was performed to resolve when adjustments may be warranted.

Did you notice the three key words from the USPAP directive?





The Comparable Overview

The Oregon Appraiser Certification and Licensure Board (ACLB) Staff and Enforcement Oversight Committee developed for informational purposes Commonly Encountered USPAP Violations.

Sales Comparison Section of Comparable Properties - Failing to select and/or support the selection of comparable sales using recognized methods and techniques. Some examples include:

- Leaving the subject's neighborhood when comparable sales data is readily available in the immediate neighborhood;
- Searching by price;
- Utilizing sales of superior quality, superior site characteristics, and/or superior amenities when more similar sales to the subject were readily available; and
- Lack of documentation in the workfile for the comparable sales and search criteria selected.

Verification → **Most Common Encountered Error in Oregon Administrative Rule: (OAR 161-025-0060)** - Failing to disclose in all appraisal reports whether the comparable sales analyzed in the appraisal report were or were not confirmed by a party to the transaction or an agent or representative of a party to the transaction."

Line Items of the Sales Comparison Approach

Your comments should reflect the communication of the item requiring adjustment as well as how the adjustment was derived albeit, quantified through paired sales or regression or a qualified judgment. One of the more common mistakes appraisers will make is they will develop a "boilerplate" of commentary on their narrative addendum to support their thought process and sources for adjustment. Although that seems like a great idea, **when it's not specific to the assignment it shows a lack of effort on the appraiser's behalf to communicate relevant information.**

Appraisal services are important to the day to day mortgage lending world. However, ***paying someone for their unsupported opinion makes the computer-generated report very attractive.***



Line Items of the Sales Comparison Approach

Investigators of Mortgage Fraud have identified triggers that signal when a fraud is being implemented. Their findings are the adjustments above the room count and GLA area. For that reason, the appraiser needs to be very careful about the details of their communication for those areas above that line item that may need to be adjusted.

Why People Commit Fraud
Donald R. Cressey



Opportunity: Market manipulation is a form of fraud. And regulators or media people are aiding and abetting fraud if they participate in it, by passing on some inflated news or turning a blind eye to irregular market activity.

Motivation

Rationalization



Jim Chanos: Cheating is so commonplace it is a fiduciary responsibility.

Date of Sale/Time

When writing the Appraisal Report there needs to be consistency found in: 1004MC – Is the trend indicating a stable market or one that is changing upward or downward

Direction	Up 1-12 Months	Up 1-6 Months	Current 1-3 Months	Down 1-3 Months	Down 1-6 Months	Down 1-12 Months
Residential Single-Family	<input type="checkbox"/>					
Residential Multi-Family	<input type="checkbox"/>					
Commercial	<input type="checkbox"/>					
Industrial	<input type="checkbox"/>					
Special Purpose	<input type="checkbox"/>					

and

Neighborhood One-Unit-Housing Trends – Indication of values correlates also to the marketing time reported for comparable listings

One-Unit Housing Trends		
Property Values	<input type="checkbox"/> Increasing	<input type="checkbox"/> Stable
Demand/Supply	<input type="checkbox"/> Shortage	<input type="checkbox"/> In Balance
Marketing Time	<input type="checkbox"/> Under 3 mths	<input type="checkbox"/> 3-6 mths
	<input type="checkbox"/> Over 6 mths	

If the report shows the market is changing and the comparable sale falls outside the effective date month, an adjustment will be expected in the field.

Date of Sale

Keep in mind:

- Comparable Sale closed outside the effective date month but no adjustment required
ZERO goes in field
- Comparable Sale closed inside the same effective date month no adjustment is required
Field is left BLANK
- Comparable Sale closed outside the effective date month in a changing market
Adjustment required

Location-Site-View



- It's important first to understand the difference between the location reported in the neighborhood section of residential form reports and the location in the Sales Approach on residential appraisal report forms.
- In the neighborhood section that identifies the location it is speaking of the bounded areas defined. Therefore, when the Sales Approach is being performed and the location is being identified the sales would come from a similar location. However, there can be location differences within the same neighborhood. In many neighborhoods, there will be lots that have "situated" characteristics, i.e. prime location.
- English law defines the situs of real estate (land) is where the land is located
- When certain site characteristics house prime factors of demand such as waterfront, then the view will tend to be part of the demand and can sometimes play second to the site area such as the waterfront feet.

Sample Comment for location, site and view

Example #1 (multiple factors are integrated)

The subject has integrating relevant site characteristics that impact the demand; 1) Waterfront Feet, 2) View, 3) Location. The subject fronts a large man-made lake that identifies this location known as Magnolia Waters placing it in high demand. The lake was built to have many inlets which magnify the number of potential waterfront lots available due to its irregular shape. There is an island in the center of the lake which is not available for purchase or development, considered common area for which the annual Homeowners Association is responsible and gives each lot a waterfront view and a natural habitat. **The adjustment for these sites are made to the waterfront feet as there are varied prices but the view and the location are in essence the same for all comparable waterfront lots.**

Quality of Construction

Since the inception of UAD the description of Quality is more defined. It is this basis that the appraiser can develop their comments.

Example: "The UAD communication mandated ratings be given on quality of construction for the benefit of standardization. The challenge is there are no allowances for quality combinations and must be concluded on one sole rating. The appraiser has determined the rating based on the dominance of characterization. When there were obvious market recognized differences that were isolated to quality of construction, as seen in Sale #3, which did not qualify for a whole rating point upward or downward the dollars associated with that slight difference was made. This was necessary on Sale #3 that had one room which was above a Q3 in that it was recently upgraded with superior custom finishes easily recognized in its quick sale at its market price. The quick absorption equated to a .5% of the Price less Land Value downward adjustment for its superior quality. That adjustment was based on the Days-On-Market (DOM) being just under 2 months and the verification of reaction based on the listing realtor. When compared to typical DOM that percentage difference was extracted."

Condition

- In April 2012, there was a clarification of the condition rating with similar directives as seen in the quality of construction. The rating needs to be specific to the property, an absolute and not a cumulative comparison of the transactions used in the Sales Approach.
- It's important to ensure that when condition is being spoken of your comments reflect the absolute of each transaction.



Sample Comments:
"Based on the actual age the subject would normally begin to show signs of wear and tear. The subject has been well maintained and has no signs of its physical six years. Based on the observation coupled with the age the appraiser has concluded the condition rating of C2."

GLA Observations

Communication of Adjustments in the Residential Appraisal Report such as the GLA doesn't require the same evidence as seen in the workfile with spreadsheets. But it should communicate how the adjustment was derived. Compare the two comments and choose which communicates the analysis result best.

"All of the adjustments were derived from the market."

"The adjustments were derived from quantitative analyses that involved studying the sales analyzed for the primary difference between the GLA."

GLA Observations

Through that process you can identify which pairings did not provide conclusive results and which did provide indicators worth considering. At that point you can weight the conclusions.

Conclusions by Weighting Comparisons

If both conclusions are given equal weight the concluded GLA adjustment would be:

Comparisons #1	\$11.61 x 50%	=	\$ 5.81
Comparison #2	\$50.00 x 50%	=	+25.00
Conclusion of Sq. Ft. Adjustment for GLA		=	\$30.81

GLA – Writing the Comment

"The appraiser utilized paired sales, multiple regression analysis as well as the percentage breakdown comparison (segmenting the sale between land contribution, site improvement contribution as well as the main improvement for a closer comparison; a form of paired sales). A reconciliation between those indicators was made and utilized to conclude the reported adjustments in the Sales Comparison Approach."

Quantified Analysis Paired Sale Comment -
"The appraiser considered within the sales found suitable for comparative analysis and found two conclusions that were weighted and reconciled at \$30.81 per square foot for GLA."

Are you using statistical programs to develop your adjustment?

With today's technology we don't have to calculate but we do need to understand how the calculation was computed. Writing comments supports any exhibits used or output from software that may use regression analysis to develop the adjustments.

Example: "The regression output of the sales approach considered ____ sales. Confidence in the output was measured at 90% meaning there was 10% of the differences that were unexplained. In residential valuation, there will always be a certain amount of unexplained variables/differences as the data that is reported will never completely communicate all of the details or reasons for the purchase. This regression analysis was not solely relied upon, rather it was a tool of support that was used to aid the appraiser in making the final determination of the market value, based on all of the analyses and approach(es) to value used in this assignment."



Line items of the Sales Approach

Room Count (Number of Bedrooms)

- Your workfile will contain your analyses.
- Your report needs to communicate how that analyses was performed.

Writing the Comment

The appraiser considered the additional reaction of bedroom differences. The studies showed a strong reaction between 2 bedroom versus 3 bedroom but no major reaction between 3 bedroom versus 4 bedroom. Sale #4 was used for the basis of bracketing the square footage of GLA. Sale #4 was a 2-Bedroom and the smallest square footage of GLA. When comparative analysis was performed the reaction beyond the GLA on a three bedroom versus a two-bedroom ranged between \$11,130 - \$12,878 reconciled at \$12,000.

Reconciling the Value Conclusion of the Sales Approach



How have you communicated your thought process when reconciling the indicators of your adjusted Sales Prices?

Weighted Techniques can be used and placed in the workfile. Your report however, needs to convey that thinking process.

USPAP

2-2 (a)(viii) in the comment, "The appraiser must provide sufficient information to enable the client and intended users to understand the rationale for the opinions and conclusions, including reconciliation of the data and approaches, in accordance with Standards Rule 1-6.

Conveying Scope of Work Decisions

Its important to remember that the Scope of Work Rule is a Development Rule, however, it is clear from SR 2-2 (a) (vii) that development process must be conveyed in the communication.

"(vii) summarize the scope of work used to develop the appraisal;

- Because intended users' reliance on an appraisal may be affected by the scope of work, the report must enable them to be properly informed and not misled.

- Sufficient information includes disclosure of research and analyses performed and might also include disclosure of research and analyses not performed.

NOTE: this is an excerpt, the SR should be viewed in its entirety for complete understanding.

Elaboration of the Scope of Work

When the assignment is complex it serves the appraiser well to go beyond canned generic statements such as

- The comparable sales are the best available
- No other sales were found to be suitable for the Sales Comparison

Respect the effort you made to perform the approach and convey the reasons your scope of work required additional work and reasoning.

Do not limit your scope of work to the pre-printed boiler-plate on the form, especially when there is a level of difficulty.



Communicating the Cost Approach

Making the decision to develop the Cost Approach should be based on the need of the data and analyses results to contribute to the question of value. If the quantity and quality of the data is difficult to relate to replicating the improvements in their current condition.

The last question to answer is whether the approach is appropriate. If through reasoning it can be concluded the approach will lend to the decision making about final value that reasoning should be communicated in the body of the report.

Communicating the Cost Approach

Documentation of the development of the cost new as well as the methodology for developing credibly the effective age and the economic life will define the strength of credible results for depreciation.

Never communicate a qualified or quantified judgement **without notation in the workfile as to how you came to that conclusion.** If the depreciation reported was based on the age life method the workfile must have evidence of how both the effective age and economic life were determined.



Communicating the Income Approach

For clarity of understanding the appraiser's scope of work that involves the development of the Income Approach the report should contain narrative commentary summarizing:

- Why the Income Approach was found necessary in the Scope of Work plan to solve the appraisal problem
- How the expenses (when expenses are a component of the rate or multiplier) were determined
- The weight of the Income Approach in the final value conclusion

Communicating the Cost and/or the Income Approach

The problem appraisers wrestle with is the directive of item #4 in the pre-printed certification form(s) discussed earlier.

Item #4 in the 1004 certification statement says, "*I developed my opinion of the market value of the real property that is the subject of this report based on the sales comparison approach to value. I have adequate comparable market data to develop a reliable sales comparison approach for this appraisal assignment. I further certify that I considered the cost and income approaches to value but did not develop them, unless otherwise indicated in this report.*"

Communicating the Cost and/or the Income Approach

Notice, the last sentence doesn't say you must not develop the Income or Cost Approaches, it says you did consider the additional methodologies. It states the cost and income approaches were considered and not developed, unless otherwise indicated. That "otherwise indicated" is the springboard back to the appraiser's responsibility for making the appropriate Scope of Work decision.

Making the Final Value Decision

It's important to be reminded of two specific definitions (set forth in the USPAP document).

APPRAISAL: (noun) the act or process of developing an opinion of value; an opinion of value. (adjective) of or pertaining to appraising and related functions such as appraisal practice or appraisal services.

Comment: An appraisal must be numerically expressed as a specific amount, as a range of numbers, or as a relationship (e.g., not more than, not less than) to a previous value opinion or numerical benchmark (e.g., assessed value, collateral value).

VALUE: the monetary relationship between properties and those who buy, sell, or use those properties.

Comment: Value expresses an economic concept. As such, it is never a fact but always an opinion of the worth of a property at a given time in accordance with a specific definition of value. In appraisal practice, value must always be qualified - for example, market value, liquidation value, or investment value.

Final Value

Notice that the word "appraisal" pertains to or is an act or process of developing an opinion which is the WHY in the expression of the result being communicated as:

- A specific amount, or
- As a range of numbers, or
- As a relationship to a previous value or numerical benchmark

Whereas the word "value" is an economic concept of a worth that **MUST BE ALWAYS** qualified.

Final Value

Recognizing the differences between these two words (Appraisal and Value), and the commentary on the need to qualify the opinion by the definitions alone prompt the need for writing a summary of how the opinion was concluded.

Final Value

Note the directive of SR 2-2 (a) (viii) and within the comment the emphasis on communicating on the results of the development of the final value.

- *Comment: An Appraisal Report must include sufficient information to indicate that the appraiser complied with the requirements of STANDARD 1. The amount of detail required will vary with the significance of the information to the appraisal. The appraiser must provide sufficient information to enable the client and intended users to understand the rationale for the opinions and conclusions, including reconciliation of the data and approaches, in accordance with Standards Rule 1-6.*

Final Value

When communicating the final opinion of value there must be a communication of how that final decision was resolved. If a weighted technique is used that formulaic process is not typically shown in the report but the use of the technique in assisting the appraiser should be discussed.



$$x = \frac{-b \pm \sqrt{b^2 - 4ac}}{2a}$$

The Certification Statement

The pre-printed form has twenty-five certifications whereas USPAP has only ten Ethical Obligations required to be stated. The difference is due to the Secondary Markets, who developed the appraisal forms for Mortgage Lending purposes. Those underwriting Intended Users have certain risks they've identified that are lessened when there are limitations to the development of the opinion. The additions of the fifteen certification statements (which does not include the History of Service obligation of USPAP that must be also stated in the certification) are not ethical directives, they are mechanical.

The Certification Statement

*Sample Comment:**Certification Statement Subsection*

"The intended user is informed that these statements represent the ethical obligations of the appraiser. These statements are pre-printed; **clarifications** are necessary so the intended users are not misled as to the limitations of these statements. Under the appraiser's obligatory development and communication expectations of competency the intended user has a right to understand the information sufficiently to such an extent that decisions, which prompted the appraisal order, can be made. For this reason, certain clarifications are presented."

Clarifications are recommended to be made for pre-printed certification numbers: 2, 5, 7, 10, 14, 17, 19, 21, 23 and the additional required disclosure of certification about the history of service if the software being used does not have this certification built into the form.

Periodic Review of the Appraisal Report

There can be no better time spent than to periodically review your own appraisal report.

Some appraisers have organized templates that houses all of those additions by having capitalized headers which prompt the appraiser to communicate in those specific areas.

Example:

- Market Value Definition Source
- History of Service
- Value difference from Pending Price
- Market Value conclusion greater than or less than the predominant price
- Contract Analysis
- Exclusions of Approaches to Value
- Highest and Best Use support for stated conclusion
- Support for the reported site value, effective age, economic life

The End



Thank You