# Unit 8 Outline

**Learning Objectives**

Study of this unit should enable the student to

* identify the steps in the appraisal process;
* use the Data Bank to determine and find information;
* evaluate the characteristics of a neighborhood;
* describe the four stages in the life cycle of a neighborhood;
* complete the Neighborhood, Site, and Improvements sections of the URAR form;
* explain what is meant by an arm’s-length transaction;
* calculate the cash equivalency of a property sale; and
* explain how the Uniform Appraisal Dataset affects the appraisal report.

**Unit Outline**

I. Overview

II. Step 1: Define the Problem

A. The appraiser must abide by *USPAP*'s Competency Rule

B. The appraiser must

1. Identify the subject property by its mailing address and by its precise legal description

2. Identify the property rights to be appraised

3. Identify the client and other intended users of the report

4. Identify the intended use of the report

5. Define the value sought—most often the market value for a prospective sale or loan

6. Specify the effective date of the appraisal—usually a date near or on the day the property is inspected

7. Determine any condition limiting the scope of use of the appraisal

C. Property Rights Conveyed

1. Majority of residential appraisals are of property held in fee simple ownership

2. Mineral rights are frequently conveyed separately

3. Air rights may be transferred to allow development of commercial property

4. Easement creates benefit to owner of dominant tenement and detriment to owner of servient tenement

5. Leased fee estate is retained by lessor (landlord) while lessee (tenant) has leasehold estate, which has value when scheduled (contract) rent is lower than market rent

## Exercise 8-1

(The exercises in this unit and unit 12 trace the progress of a typical appraisal using the sales comparison approach.)

III. Determine the Scope of Work—encompasses the amount and type of information researched and the analysis applied in the appraisal development process

IV. Gather, Record, Verify, and Analyze the Necessary Data

A. General data on the geographic and economic features of the nation, region, city, and neighborhood

B. Specific data on the subject site and improvements—including a detailed physical description

C. Sales data on comparable properties—to apply the sales comparison approach

D. Cost data on construction of a like property and accrued depreciation data on the subject property—to apply the cost approach

E. Income and expense data from properties similar to the subject—to apply the income capitalization approach; sales and income data from properties similar to the subject that have been sold in the same market area and were rented at the time of sale—to apply the GRM method, a form of income approach for residential properties

F. The type of property being appraised dictates the emphasis to be placed on the types of data collected

G. Uniform Appraisal Dataset—requirements developed by Fannie Mae and Freddie Mac apply to conventional mortgage loans sold to Fannie Mae and Freddie Mac

1. The Data Bank (Figure 8.1)—helps the appraiser determine the types of information required for an appraisal and where the information can be found

A. Surfing the Net—most federal, state, and local government agencies now available via the internet—Appendix

B. The Data Source List—sources of appraisal information

C. Kinds of data needed—lists types of data needed in each step of the appraisal process, with cross-references to sources

1. National and regional trends—the real estate marketplace is strongly influenced by national and regional matters

2. Economic base—level of business activity in a community—communities with a stable economic base are most likely to thrive under any conditions

3. Local area and neighborhood—access to shopping, schools, and places of employment are all factors that make one area or neighborhood more desirable than another—boundaries of a neighborhood also are important in determining whether other properties can be considered "comparable" to the subject property

4. Site and improvements

a. Assemblage—process of combining adjacent lots

b. Plottage—increase in value that may result from a group of adjacent properties when they are combined into one property

c. Highest and best use study should take into account the site's present zoning and existing structures

## Exercise 8-2

VI. Data Forms

A. Neighborhood Data—Neighborhood section of the URAR (Figure 8.2) helps the appraiser gather some of the basic information needed for every appraisal report, including

1. Neighborhood boundaries

2. Stages of life cycle (GEDR)—growth, equilibrium, decline and rehabilitation

3. Proximity to hazards and nuisances

## Exercise 8-3

**Figure 8.3**

B. The Site Visit

C. Site Data—Site section of the URAR (Figure 8.4) can be used to record information about the subject site using the Uniform Appraisal Dataset when applicable

1. Legal description

2. Property location and landmarks

3. Topography and natural hazards

4. Size of property

5. View

6. Zoning

7. Easements or deed restrictions

8. Land areas held in common

## Exercise 8-4

D. Building Data—Improvements section of the URAR (Figure 8.5) is used to record information on subject improvements, including

1. Exterior features

a. First impression of the house and how it fits in with the surrounding area

b. Landscaping

c. External construction materials (foundation, outside walls, roof, driveway, etc.)

d. General external condition of structures

e. Dimensions of each structure on the site

f. Architectural style or design of structures

2. Interior features—appraiser notes and evaluates major construction details and fixtures, including

a. Interior finish

b. Types of floors

c. Type and adequacy of kitchen cabinets

d. Type and condition of heating and air-conditioning systems

e. All other features that may affect value, such as a fireplace

f. General condition of interior using UAD-required grades (Figure 8.6)

g. Room dimensions and total square footage

h. Presence of any substance requiring disclosure

3. Depreciation—appraiser notes the presence and degree of any of the three kinds of depreciation:

a. Physical deterioration—effects of ordinary wear and tear and the action of the elements

b. Functional obsolescence—the absence of currently desirable features or the presence of currently undesirable features

c. External obsolescence—a feature made undesirable or unnecessary because of conditions outside the property

4. Multiunit buildings—floor-by-floor or apartment-by-apartment breakdown

## Exercise 8-5

V. Data for Sales Comparison Approach

A. Recent Sales—within a normal market, sales no more than six months before the date of appraisal generally are acceptable

B. Similar Features—style, age, number and purpose of rooms, size of lot and building, terms of sale, type of construction, general condition

C. Financing Terms—variances adjusted by using cash equivalency technique—sales price considered in relation to loan interest rate

**Exercise 8-6**

D. Arm's-Length Transaction—required

E. Sources of Data

1. Appraiser's own records

2. Official records of deeds

3. Real estate assessor's office

4. Records of sales published by some local real estate boards or compiled by sales research services and newspapers

5. Internet valuation services

## Exercise 8-7

## Summary

Review Questions