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Appraisal Institute Annual Meeting
Modeling your Appraisal Report to Meet your Client's Needs in the Commercial Marketplace
Myth #1 – The Final Estimate of Value is the Only Area of the Report Anyone Reads

- Financial Institutions - Interagency Appraisal and Evaluation Guidelines require a review - (IAEG) Section XV – Reviewing Appraisals and Evaluations
  - Reviewer Qualifications
  - Depth of the Review
  - Resolution of Deficiencies
  - Documentation of the Review
Myth #2 – A Review Appraiser is the only one who reviews the report

- Loan Officers
- Clients
- Underwriters
- Auditors, Examiners
Myth #3 – The Income Approach is the only section of the report that is important

- The report is a cohesive document – the description of the property, market analysis, highest and best use, etc. must correspond to the valuation methodology
- Approaches to value are inter-dependent
Myth #3 – The Income Approach is the only section of the report that is important (continued)

– Market Analysis
  • Demographics for neighborhood
    – 1, 3, 5, 10 mile radius
  • Occupancy
    – Historical
    – Forecasted
  • Competition (comparable projects – rents and sales)
    – Historical
    – Forecasted
Myth #4 – An Appraisal Report is a “Finite” Document

• Appraisal reports often represent the initial research document
• Demographics, competitive rental rates, recent sales and current and forecasted occupancy levels
• Projected Income Stream (considering forecasted maintenance projects, management, tenant turnover)
Myth #5 – The Estimate of Value in the Appraisal is the Final Number

• BPOs, AVMs, Valuation/Loan Analysts
• Credit Risk (LTV ratios)
• Sensitivity analysis of internal rates of return and capitalization rates

Loan/Sale Decision is multi-faceted
Myth #6 – Appraisal Reports Are Required to Follow A “Specific” Format

USPAP identifies the “minimum” procedure and content but does not require a specific format.

Client perspective information should be concise and easy to location – Summary of Salient Facts should provide sufficient information to address the “intended use”

The Summary of Salient Facts is the report – the balance is the support
“Checklist”

• Reviewer perspective – Summary of Salient Facts should capsulize the information in Standard Rule 2-2 (with reference to location of detailed information in the report)

• Loan Officer/Analyst – Summary of Salient Facts should include:
  – Synopsis of Market Analysis
    • Demographics for the area
    • Occupancy (current and projected)
“Checklist” (continued)

– Synopsis of Valuation
  • Cost Approach
    – Estimate of Land Value
    – Replacement Cost New
    – Remaining Economic Life
    – Depreciation (Physical, Functional, Economic)
    – Value by the Cost Approach
  • Income Approach
    – Estimate of market rents
    – Discounted Cash Flow
    – Internal Rate of Return
    – Capitalization Rate
    – Value by the Income Approach
“Checklist” (continued)

• Sales Comparison Approach
  – Range of Sales Data
  – Value by the Sales Comparison Approach

• Concluded Valuation
Myth# 7 – An Appraisal Report Considers Only Market Value

USPAP Standard Rule 1-2(c) – identify the type and definition of value, and, if the value opinion to be developed is market value, ascertain whether the value is to be the most probable price:

1. in terms of cash; or
2. in terms of financial arrangements equivalent to cash;
3. in other precisely defined terms; and
4. if the opinion of value is to be based on non-market financing or financing with unusual conditions or incentives, the terms of such financing must be clearly identified and the appraiser’s opinion of their contributions to or negative influence on value must be developed by analysis of relevant market data;
Myth# 7 – An Appraisal Report Considers Only Market Value (continued)

Appraisal reports for Federally Related Transactions (FRT) — Must be based upon the definition of market value set forth in the appraisal regulation. Each appraisal must contain an estimate of market value, as defined by the Agencies’ appraisal regulations. The definition of market value assumes that the price is not affected by undue stimulus, which would allow the value of the real property to be increased by favorable financing or seller concessions.

Value opinions such as going concern value, value in use, or a special value to a specific property user may not be used as market value for federally related transactions. An appraisal may contain separate opinions of such values so long as they are clearly identified and disclosed.
Myth# 7 – An Appraisal Report Considers Only Market Value (FRT - continued)

The estimate of market value should consider the real property’s actual physical condition, use, and zoning as of the effective date of the appraiser’s opinion of value. For a transaction financing construction or renovation of a building, an institution would generally request an appraiser to provide the property’s current market value in its as is condition, and, as applicable, its prospective market value upon completion and/or prospective market value upon stabilization.

Prospective market value opinions should be based upon current and reasonably expected market conditions. When an appraisal includes prospective market value opinions, there should be a point of reference to the market conditions and time frame on which the appraiser based the analysis. An institution should understand the real property’s as is market value and should consider the prospective market value that corresponds to the credit decision and the phase of the project being funded, if applicable.
Myth# 7 – An Appraisal Report Considers Only Market Value (continued)

• Retrospective Value
• Fair Value
• Investment Value
• Value In Use
• Range of Value (Sensitivity Analysis)
Myth# 8 – If The Engagement Agreement is Silent I am not Required to Consider Multiple Properties as a Single Entity

USPAP Standard Rule 1-4(e)

“When analyzing the assemblage of the various estates or component parts of a property, an appraiser must analyze the effect on value, if any of the assemblage. An appraiser must refrain from valuing the whole solely by adding together the individual values of the various estates or component parts.”
Myth# 8 – If The Engagement Agreement is Silent I am not Required to Consider Multiple Properties as a Single Entity (cont.)

Federally Related Transactions (FRT)

A tract development is defined in the Agencies’ appraisal regulations as a project of five units or more that is constructed or is to be constructed as a single development.

Appraisals for these properties must reflect deductions and discounts for holding costs, marketing costs, and entrepreneurial profit supported by market data.

The projected sales prices and absorption rate of units should be supported by anticipated demand at the time the units are expected to be exposed for sale.