

# AI Reports™ AI-100 Summary Appraisal Report • Residential

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**Guidebook**

**A new release will be issued soon.**

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# Page One – Appraiser Identification and Appraisal Parameters

	Client File #:	
	Appraisal File #:	
 <p style="margin: 0;">Appraisal Institute®</p> <p style="margin: 0;">AI Reports™ Form AI-100.01*</p>	<b>Summary Appraisal Report • Residential</b>	
	Appraisal Company:	
	Address:	
	Phone:	Fax:
Appraiser:	Co-Appraiser:	
AI Membership: <input type="checkbox"/> SRA <input type="checkbox"/> MAI <input type="checkbox"/> SRPA <input type="checkbox"/> Associate Member <input type="checkbox"/> None	AI Membership: <input type="checkbox"/> SRA <input type="checkbox"/> MAI <input type="checkbox"/> SRPA <input type="checkbox"/> Associate Member <input type="checkbox"/> None	
Other Professional Affiliation:	Other Professional Affiliation:	
E-mail:	E-mail:	
Client:	Contact:	
Address:		
Phone:	Fax:	E-mail:
<b>REAL ESTATE IDENTIFICATION</b>		
Address:		
City:	County:	State: Zip:
Legal Description:		
Tax Parcel #:	RE Taxes:	Tax Year:
<b>SUBJECT PROPERTY HISTORY</b>		
Owner of Record:		
Description and analysis of sales within 3 years (minimum) prior to effective date of value:		
Description and analysis of agreements of sale (contracts), listings, and options:		
<b>RECONCILIATIONS AND CONCLUSIONS</b>		
Indication of Value by Sales Comparison Approach	\$	_____
Indication of Value by Cost Approach	\$	_____
Indication of Value by Income Approach	\$	_____
Final Reconciliation of the Methods and Approaches to Value:		
<b>Opinion of Value as of:</b> _____		<b>\$</b> _____
<i>Subject to any hypothetical conditions or extraordinary assumptions stated in the Assignment Parameters section.</i>		

\* NOTICE: The Appraisal Institute publishes the Summary Appraisal Report - Residential form for use by appraisers where the appraiser deems use of the form appropriate. Depending on the assignment, the appraiser may need to provide additional data, analysis and work product not called for in the Summary Appraisal Report - Residential form. The Appraisal Institute plays no role in completing the form and disclaims any responsibility for the data, analysis or any other work product provided by the individual appraiser(s).

Form AI-100 is the Summary Appraisal Report • Residential. This form can be used for a variety of single-family residential property appraisal assignments.

The opening lines of the report identify the name of the appraisal company, the appraiser(s) performing this assignment, contact information, the appraiser's Appraisal Institute membership, and, if applicable, the member's designation.

**Note:** Page one of the AI Reports™ AI-100 is intended to be the first page of **each report** in the suite of AI Reports™. This page presents information on the appraiser, the property, and the conclusions of the analysis.

## Real Estate Identification and Subject Property History

Standards Rule 2-2 (a)(iii) requires a description sufficient to identify the real estate involved in the appraisal assignment. Accordingly, the Real Estate Identification section asks for street address, legal description, and tax parcel information. While all of this information may not be available or pertinent to every assignment or area, it is considered typical of most appraisal assignments. Compliance with SR 2-2(a)(iii) is not limited to this section. The appraiser can and should supplement as necessary based upon the scope of work and assignment problem. The term “Tax Parcel #” may not be used in all areas; the appraiser should use the term that his or her local governmental authority uses to identify property.

The Subject Property History section indicates who holds legal title to the subject property and gives an analysis of any sales or listings of the subject property. While the design of the form is felt to offer ample room for the typical sales/listing history of a property, the appraiser should include addenda if the history is atypical or requires more in-depth analysis.

## Reconciliations and Conclusions

By featuring the Reconciliations and Conclusions section on the first page of the form, the reader of the report is able to see the indications of value derived in each approach and the final reconciliation of value before reading the entire report with all of the supporting data.

The first three boxes in this section list the indications of value derived from each approach applied in the appraisal. If an approach was not applied in the assignment, “Not Applicable,” “Not Completed,” or “\$0” should be recorded according to what is most appropriate for the assignment based on the intended use and intended user.

The last section of the Reconciliations and Conclusions section provides the appraiser with a narrative box to describe a final reconciliation of the three approaches to value and to conclude an opinion of value.

**Note:** The reference to any hypothetical conditions or extraordinary assumptions to which the report might be subject must be discussed later in the report.

# Page Two – Assignment Parameters and Scope of Work

<b>Client:</b>		<b>Client File #:</b>	
<b>Subject Property:</b>		<b>Appraisal File #:</b>	

**ASSIGNMENT PARAMETERS**

Intended User(s): \_\_\_\_\_

Intended Use: \_\_\_\_\_

***This report is not intended by the appraiser for any other use or by any other user.***

Type of Value: \_\_\_\_\_ Effective Date of Value: \_\_\_\_\_

Interest Appraised:    Fee Simple    Leasehold    Other: \_\_\_\_\_

Hypothetical Conditions: (A hypothetical condition is that which is contrary to what exists, but is asserted by the appraiser for the purpose of analysis. Any hypothetical condition may affect the assignment results.)

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Extraordinary Assumptions: (An extraordinary assumption is directly related to a specific assignment and presumes uncertain information to be factual. If found to be false this assumption could alter the appraiser's opinions or conclusions. Any extraordinary assumption may affect the assignment results.)

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

In accordance with Standard Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice (USPAP), this is a summary appraisal report.

**SCOPE OF WORK**

Definition: The scope of work is the type and extent of research and analysis in an assignment. Scope of work includes: the extent to which the property is identified; the extent to which tangible property is inspected; the type and extent of data researched; and the type and extent of analysis applied to arrive at opinions or conclusions. The specific scope of work for this assignment is identified below and throughout this report.

<p><b>Inspection of Subject:</b></p> <p>Appraiser:  <input type="checkbox"/> None   <input type="checkbox"/> Interior   <input type="checkbox"/> Exterior  <input type="checkbox"/> Date of Inspection _____</p> <p>Co-Appraiser:  <input type="checkbox"/> None   <input type="checkbox"/> Interior   <input type="checkbox"/> Exterior  <input type="checkbox"/> Date of Inspection _____</p> <p>Living Area Measured:  <input type="checkbox"/> Yes   <input type="checkbox"/> No  <input type="checkbox"/> Other: _____</p>	<p><b>Data Sources Used:</b></p> <p><input type="checkbox"/> MLS  <input type="checkbox"/> Public Records  <input type="checkbox"/> Office Files  <input type="checkbox"/> Owner  <input type="checkbox"/> Plans &amp; Specifications  <input type="checkbox"/> Purchase Agreement  <input type="checkbox"/> Other: _____</p> <p>_____          _____          _____</p>	<p><b>Approaches to Value Developed:</b></p> <p>Cost Approach:  <input type="checkbox"/> Is necessary and developed in this analysis  <input type="checkbox"/> Is applicable but not necessary and omitted in this analysis  <input type="checkbox"/> Is not applicable or necessary and omitted in this analysis</p> <p>Sales Comparison Approach:  <input type="checkbox"/> Is necessary and developed in this analysis  <input type="checkbox"/> Is applicable but not necessary and omitted in this analysis  <input type="checkbox"/> Is not applicable or necessary and omitted in this analysis</p> <p>Income Approach:  <input type="checkbox"/> Is necessary and developed in this analysis  <input type="checkbox"/> Is applicable but not necessary and omitted in this analysis  <input type="checkbox"/> Is not applicable or necessary and omitted in this analysis</p>
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Additional Scope of Work Comments:

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Significant Real Property Appraisal Assistance:    None    Disclose Name(s) and contribution:

\_\_\_\_\_  
 \_\_\_\_\_

**Note:** Page two of the AI Reports™ AI-100 is intended to be the second page of **each report** in the suite of AI Reports™. This page presents the parameters for the assignment and sets forth a definition of the scope of work.

The focus here is to identify the scope of work of the assignment that the appraiser is undertaking. This is the most important part of the appraisal process as it indicates the type and extent of the research and analysis performed in the assignment.

The Scope of Work Rule, effective July 1, 2006, requires the appraiser to

1. Identify the problem to be solved.
2. Determine and perform the scope of work necessary to develop credible assignment results.
3. Disclose the scope of work in the report.

This section of the form allows the appraiser to identify the intended user(s), the intended use, the type of value sought, and the effective date of the report. These are necessary requirements in determining and identifying the appropriate scope of work for the assignment.

Once the scope of work has been established, the appraiser and the client can determine the type of report needed:

- Self-Contained Appraisal Report
- Summary Appraisal Report
- Restricted Use Appraisal Report

**Note:** If the Restricted Use Report is used, the client must be the only intended user.

Most reports will be in a summary format, but from time to time the appraiser may need to increase the level of information and prepare a self-contained report, a decision to be made in consultation with the client. It is up to the appraiser to explain the levels of reporting and to help the client determine which is appropriate for compliance with the Uniform Standards of Professional Appraisal Practice (USPAP). As stated in Standards Rule 2-1(b), appraisers are required to include sufficient information so as not to mislead the intended users of the report.

## Assignment Parameters

**Intended User(s).** USPAP defines intended users as, “*the client and any other party as identified, by name or type, as users of the appraisal, appraisal review, or appraisal consulting report by the appraiser on the basis of communication with the client at the time of the assignment [emphasis added].*” The client is always an intended user but other parties may be intended users as well. The appraiser identifies who the intended users need to be in an assignment by discussing the matter with the client at the time of the engagement. Because USPAP requires that the appraisal report contain

sufficient information for the intended users to understand the report properly (Standards Rule 2-1(b)), it is critical to establish who the intended users are *at the outset* of each assignment.

**Intended Use.** The intended use is the reason for which the client needs the appraisal. USPAP requires the appraiser to identify the intended use of an appraisal assignment in the appraisal report. Since intended use is the key factor in making the scope of work decision, it is important to ask the right questions and discuss the intended use with the client before accepting the assignment (Statement on Appraisal Standards No. 9).

**Type of Value.** This section is where the appraiser would identify the type of value described in the report. While market value is the most often identified and sought value, other value types include but are not limited to: insurance value; going concern value; investment value; assessed value; use value; and partial interest value. USPAP compliance requires that the appraiser identify the source of any definition used.

**Note:** The appraiser should not confuse “Type of Value” with current, prospective, or retrospective values. The latter is the effective date of value and part of the scope of work decision. See Effective Date of Value section.

**Effective Date of Value.** The effective date of value is the date on which the value conclusion is effective. This can be a current date, a retrospective date, or a prospective date. The appraiser records the date of value that is appropriate for the assignment. Generally, the date of value is a current date and will coincide with the inspection date, if the scope of work includes an inspection. But for some assignments, a retrospective or prospective date of value will be appropriate. If the effective date of value is something other than current, the appraiser is advised to reiterate this and the inspection date (if applicable) in the scope of work narrative section at the bottom of page two. If the effective date of value is a retrospective date, the appraiser should explain why a retrospective value is necessary for the assignment. For example: *“This is a retrospective appraisal for tax and estate purposes, with the effective date being the date of death.”* Or, *“This is a retrospective appraisal for tax appeal purposes with the effective date being January 1, 20XX.”*

**Interest Appraised.** When the appraiser is appraising single-family properties, he or she will most often be marking the Fee Simple box. However, the appraiser should not assume this is always the case. The subject property might be a leasehold or leased fee interest. The Other space allows some flexibility for other circumstances. For instance, leasehold valuations are not that rare in some parts of the country.

**Hypothetical Conditions and Extraordinary Assumptions.** When hypothetical conditions or extraordinary assumptions are required, certain steps are followed to employ them properly. Reporting requirements for a summary report are set forth in Standards Rule 2-1(c) and 2-2 (b)(x) and require the appraiser to clearly, accurately, and conspicuously report all hypothetical conditions and extraordinary assumptions and state that their use might have affected the assignment results.

Hypothetical conditions are more common than many realize. One common situation in which a hypothetical condition is used is in the appraisal of a proposed residence when the date of value is a

current date. In this case, the appraiser's statement could read, "This appraisal is subject to the hypothetical condition that, per the plans and specifications provided to the appraiser, the improvements are complete as of the date of value, though they have not yet been built." (For use with proposed improvements, see Advisory Opinion 17, specifically lines 65-76.)

One or more extraordinary assumptions will need to be stated in the case of a drive-by or exterior-only appraisal. When the appraiser does not obtain information about the characteristics of the property that are relevant to the assignment (such as its size and condition) from a first-hand, personal inspection, the appraiser must obtain this information from other sources and make the extraordinary assumption that the information is accurate. In such a case one or more extraordinary assumptions about the property condition or size may need to be stated.

## Scope of Work

The definition of scope of work presented on this AI Reports™ form is provided to inform the reader of the meaning of this term in appraisal practice. The scope of work of an assignment is critical as it establishes the framework within which the opinions and conclusions are developed.

It is very important to be specific about data sources. The appraiser should identify who was interviewed and who was not or could not be interviewed. This provides the reader (user) with an understanding of the limitations of the investigation.

**Inspection of Subject.** In this section, the appraiser identifies the level of inspection performed by each appraiser working on the assignment. For some assignments, an appraiser might make a field trip to look at the property. For other assignments, it will be adequate to observe the property from the street. In yet other assignments, it might be appropriate to forego any sort of inspection whatsoever (desktop appraisals). The appraiser should be sure the level of inspection chosen is appropriate for the intended use of the appraisal and meets the requirements or desires of the client.

**Data Sources Used.** Several sources are provided for the appraiser to check. There may be others to add in the spaces below. The appraiser should mark all that are applicable and specific to the assignment at hand.

**Approaches to Value Developed.** In the final column the appraiser indicates which approaches were used in the assignment. Note that there are three options for each. While the approaches to value developed is a scope of work decision, which is discussed with the client, *it is the appraiser's responsibility to determine which approaches are applicable and necessary.* If one or more approaches are not used an explanation **must** be provided to inform the client, intended users, reviewers, and other readers of the report (Reference Standards Rule 2-2(b)(viii), specifically lines 906-908.

**Additional Scope of Work Comments.** Additional, *assignment-specific* information about the scope of work is recorded in the space provided here. For instance, this is a good place to reiterate or clearly identify if the report contains a retrospective or prospective effective date of value.

**Significant Real Property Appraisal Assistance.** This section may not be applicable unless a trainee or another appraiser who is not signing the report has assisted with the assignment. If nobody else provided significant real property appraisal assistance in the assignment, the appraiser simply checks “None.” If someone did assist and is not signing the report, **the appraiser must name that person and describe his or her duties and the analysis performed.** The appraiser must name the individual who **has not signed the report** but provided assistance in the certification as well.

This space may also be used to describe the duties and analyses specifically performed by each individual signing the report. Whatever the licensure or certification status of the signatories, the appraiser may want to differentiate the extent of research, analysis, or report writing performed by the appraiser and the co-appraiser here. If a trainee is signing the report as the appraiser, this should be explained.

As an alternative, the appraiser may choose to acknowledge the description of duties and analyses within the scope of work section. There is no right or wrong answer. However, the appraiser should ensure that clients and state regulatory agencies have a clear understanding of each signer’s responsibility and level of analysis in the assignment, especially in the case of a trainee.

# Page Three – Market Area Analysis and Site Analysis

<b>Client:</b> _____	<b>Client File #:</b> _____
<b>Subject Property:</b> _____	<b>Appraisal File #:</b> _____

MARKET AREA ANALYSIS					
<b>Location</b> <input type="checkbox"/> Urban <input type="checkbox"/> Suburban <input type="checkbox"/> Rural	<b>Built Up</b> <input type="checkbox"/> Under 25% <input type="checkbox"/> 25-75% <input type="checkbox"/> Over 75%	<b>Growth</b> <input type="checkbox"/> Rapid <input type="checkbox"/> Stable <input type="checkbox"/> Slow	<b>Supply &amp; Demand</b> <input type="checkbox"/> Shortage <input type="checkbox"/> In Balance <input type="checkbox"/> Over Supply	<b>Value Trend</b> <input type="checkbox"/> Increasing <input type="checkbox"/> Stable <input type="checkbox"/> Decreasing	<b>Typical Marketing Time</b> <input type="checkbox"/> Under 3 Months <input type="checkbox"/> 3-6 Months <input type="checkbox"/> Over 6 Months
<b>Neighborhood Single Family Profile</b> Price _____ Low _____ Age _____ _____ High _____ _____ Predominant _____		<b>Neighborhood Land Use</b> 1 Family _____% Commercial _____% Condo _____% Vacant _____% Multifamily _____% Other _____%		<b>Neighborhood Name:</b> _____ PUD <input type="checkbox"/> Condo <input type="checkbox"/> HOA: \$ _____ / _____ Amenities: _____	
Market area description and characteristics:					

SITE ANALYSIS	
Dimensions: _____	Area: _____
View: _____	Shape: _____
Drainage: _____	Utility: _____
<b>Site Similarity/Conformity To Neighborhood</b>	
Size: <input type="checkbox"/> Smaller than Typical <input type="checkbox"/> Typical <input type="checkbox"/> Larger than Typical	View: <input type="checkbox"/> Favorable <input type="checkbox"/> Typical <input type="checkbox"/> Less than Favorable
<b>Zoning/Deed Restriction</b>	
Zoning: _____ <input type="checkbox"/> Legal <input type="checkbox"/> No zoning <input type="checkbox"/> Legal, non-conforming <input type="checkbox"/> Illegal	Covenants, Condition & Restrictions: <input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Unknown Documents Reviewed <input type="checkbox"/> Yes <input type="checkbox"/> No Ground Rent: \$ _____ / _____
<b>Utilities</b>	
Electric <input type="checkbox"/> Public <input type="checkbox"/> Other _____	<b>Off Site Improvements</b>
Gas <input type="checkbox"/> Public <input type="checkbox"/> Other _____	Street <input type="checkbox"/> Public <input type="checkbox"/> Private _____
Water <input type="checkbox"/> Public <input type="checkbox"/> Other _____	Alley <input type="checkbox"/> Public <input type="checkbox"/> Private _____
Sewer <input type="checkbox"/> Public <input type="checkbox"/> Other _____	Sidewalk <input type="checkbox"/> Public <input type="checkbox"/> Private _____
	Street Lights <input type="checkbox"/> Public <input type="checkbox"/> Private _____
Site description and characteristics:	

## Market Area Analysis

Understanding the market area and trends in property values, supply/demand characteristics, and marketing time is critical to any valuation assignment. The local market must be evaluated from a macro viewpoint, considering the broad characteristics of the area, before narrowing the investigation down to the property selected for analysis. This ensures that pertinent market data is considered in the appraisal process. The appraiser may extend the search for market data beyond the subject property's immediate neighborhood if this appropriately reflects the actions of typical buyers.

The area of influence, commonly called a *neighborhood*, can be defined as a group of complementary land uses. A market area can encompass one or more neighborhoods. The term *market area* is more useful than *neighborhood* for several reasons:

- The broad term *market area* avoids the confusing and negative implications of other terms.
- A market area can include multiple neighborhoods.

Understanding how the real estate market works is essential in almost every step of the valuation process. It is important that the appraiser investigate all value-influencing factors and document them in this section. The accurate completion of this section and a good narrative description of the market area, in addition to a thorough neighborhood analysis, can help the client understand adjustments made in the sales comparison approach.

The market area analysis will fulfill the following objectives:

- To reveal market preferences and price patterns on which a market value opinion can be based.
- To reach a general conclusion concerning the highest and best use of the site as though vacant, which is required for site valuation.
- To determine the highest and best use of the property as improved, considering the structures already on the site as well as neighborhood and market standards. Generally, the ideal improvements for the subject property are suggested by the characteristics of other neighborhood property improvements.
- To define the primary area from which comparables will be selected.
- To discern if and why different locations within a market area or within competing neighborhoods have different values. (This knowledge helps the appraiser adjust sales of properties considered comparable for locational differences.)
- To consider all positive and negative value influences of the neighboring properties and nearby land uses.
- To identify any changes in the market area that may have affected values since the comparables were sold.

The appraiser is prompted to report on the characteristics of the market area: location, percent built up, growth, supply and demand, value trend, and typical marketing time. During the analysis phase, the appraiser should have taken notes relating to all these characteristics to prepare to complete the narrative description section shown below. These comments provide the rationale and support for the appraiser's conclusions.

**Location.** Whether a property is considered urban, suburban, or rural is ultimately the appraiser's determination and can be supported with analyses of the built up percentage, growth, and supply and demand. Rural properties are generally far from urban areas and less than 50% built up; the surrounding area usually consists of agricultural areas, forest, or other undeveloped tracts.

Suburban properties are generally described as those that lie outside a larger urban area where the main employment centers are located. Urban areas are typically more dense than rural areas and urban properties are often more homogeneous. Urban areas are typically the core of larger cities, but small towns can also be considered urban in comparison to nearby communities.

Definitions vary, so the appraiser may need to provide additional explanation for location analysis. For example, there are rural subdivisions around many larger communities that directly compete with suburban areas. These properties are typically situated on larger tracts, but are close to employment and supporting services such as shopping, recreational facilities, and schools.

**Built Up.** Here the appraiser determines the percentage of improved land within the subject's market area. A field inspection is often the best way to obtain information regarding the built-up percentage of a defined market area, although appraisers can also rely on MLS listings, census tables, and zoning or land use maps.

**Growth.** The appraiser indicates the pace of neighborhood land development and comments on how growth affects marketability in the narrative description section. The appraiser should consider the four stages of a market area's life cycle when analyzing the growth rate:

1. Growth – period during which the market gains public favor and acceptance
2. Stability – period of equilibrium without marked gains or losses
3. Decline – period of diminishing demand
4. Revitalization – period of renewal, redevelopment, modernization, and increasing demand

Although these stages can describe the life cycle of market areas in a general way, they should not be used as specific guides to market trends. A market area has no set life expectancy and the life cycle is not a fixed process. There should be a correlation between the growth rate and supply and demand.

**Supply & Demand.** The four factors that create value are scarcity, desire, effective purchasing power, and utility. The utility of a property, the intensity of the desire to acquire it, its scarcity or abundance, and the effective purchasing power of potential buyers all affect supply and demand.

The appraiser should expound on his or her characterization of supply and demand (shortage, in balance, or over supply) in the narrative description section.

**Value Trend.** Value trends should also correlate with growth and supply and demand. The four forces that affect value and are important in market area analysis are

- Social forces
- Economic forces
- Governmental forces
- Environmental forces

Participants in the market are attracted to a location for its status, physical environment, services, affordability, and convenience. Market area characteristics point to influences that have affected value trends in the past and may affect values in the future.

**Typical Marketing Time.** Marketing times vary in different neighborhoods and market areas and are affected by factors including price, utility, and scarcity. The appraiser estimates the typical marketing time for the market area defined in this section. This information can be verified through MLS reports and conversations with local market participants and professionals. Again, the analysis and determination of marketing time for the market area should correlate with growth and supply and demand.

**Neighborhood Single-Family Profile.** The appraiser reports the high and low prices and chronological age ranges for single-family homes in the defined market area, excluding any anomalies. In an older area that is 100% built up, for example, there may be one or two newly constructed in-fill properties. If the next newest property is thirty years old, the new properties should not be reported.

The character of a market area is reflected by its average house. The structural and architectural quality, age, and condition of typical residences have a substantial effect on the desirability of a neighborhood and market area.

**Neighborhood Land Use.** For land in the immediate market area, estimate the percentage of each property type. Unimproved land should be recorded in the “Vacant” space. The total must equal 100%. The land use percentages should be consistent with expectations and the previously identified information on Location (Urban/Suburban/Rural) and Built Up percentages. The appraiser should comment on any nonresidential land uses that impact marketability.

**Neighborhood Name.** If the neighborhood has a specific local or legal name, it should be noted in this space. The appraiser also indicates if the property is a planned unit development (PUD) or condominium, is subject to HOA (homeowners’ association) fees, or has any special amenities.

**Market area description and characteristics.** In this section, the appraiser summarizes the area analysis in a narrative, commenting on all positive and negative influences impacting the subject property’s marketability. Influences may include employment, environmental conditions, external obsolescence, property compatibility, schools, and transportation. Use this section to describe the market area boundaries and the neighborhood or neighborhoods that make up the market area. Any information indicated in the check boxes can be explained in detail in this section.

The appraiser should specifically describe all beneficial **and** detrimental conditions discovered in the market area, recording precise, impartial observations made through personal inspection, not general references. Additionally, the appraiser should provide reasoned analysis and support for the conclusions presented, painting a picture for the reader of the factors and influences that affect value in the market area. Canned comments or “boilerplate” should be avoided. The appraiser’s comments should be property- and assignment-specific.

## Site Analysis

Site analysis gives the appraiser an understanding of how the property is currently used and establishes criteria for the selection of comparable properties. The desirability of the property, zoning, maintenance, and landscaping all affect property value. One of the primary objectives of site analysis is to form a basis for determining the highest and best use of the land as though vacant.

If the lot being appraised is unimproved vacant land, detailed data on various characteristics may have to be collected as part of site analysis. Some clients require that a highest and best use or feasibility study be completed before they prepare land for a particular use. When the property is already improved and the highest and best use is not for redevelopment of the site, the appraiser may assume that underlying conditions are acceptable—i.e., the soil is suitable, the site is physically usable—but these assumptions and their effects must be clearly stated in the appraisal report.

Site description and analysis have several steps, which may be grouped into two general tasks:

1. A review of legal, tax, and assessment information on the property. Using this information, the appraiser notes the legal description and all public and private restrictions that limit property use.
2. A field inspection of the site in which the appraiser observes how site characteristics combine to shape highest and best use. Any problems or special advantages that may affect site value should be noted.

In the site description and analysis, the appraiser describes and interprets how the physical characteristics of the site influence value and how physical improvements relate to the land and to neighboring properties. Some important physical characteristics include:

- Site size and shape
- Corner influence
- Excess land and surplus land
- Topography
- Utilities
- Site improvements
- Accessibility
- Environment
- Views

In the Site Analysis section, the appraiser should provide information on the overall description of the site (dimensions, area, view, shape, drainage, utility) and check the appropriate responses regarding similarity/conformity of the site to the neighborhood, zoning/deed restrictions, utilities, and off site improvements. During the analysis phase, the appraiser should make mental and/or written notes relating to all of these areas to support the narrative comments required.

**Dimensions/Area.** The site's width is the distance between the sidelines of the lot. When the shape of a lot is irregular, the average width is often used; however, the appraiser may wish to note that this is an estimate. Its linear dimensions and shape determine the area of the site. Size differences can affect value and are considered in site analysis. (The appraiser should have a working knowledge of the differences between excess land and surplus land.)

**Shape/Utility.** The appraiser can determine how the size and shape of a site affect its value for a particular use by analyzing sales data on parcels of various sizes and shapes. For example, an odd-shaped parcel may be appropriate for a dwelling but unacceptable for certain commercial or industrial uses. A triangular lot may not have the same utility as a rectangular lot. The size and shape descriptions and the site dimensions (street frontage, width, and depth) can suggest the advantages or disadvantages caused by these physical characteristics.

Lot type, orientation, and access also affect utility. Some common types of lots are:

- Interior
- Corner
- Cul-de-sac
- Flag

Interior lots are often the most regular in shape. They typically have access from the street, although a rear alley may also provide access. Corner lots have frontage on two or more streets and often appeal to commercial users because of their increased visibility and convenient access. Corner lots may provide greater access and flexibility in the building layout and more light and air than interior lots; however, they may also have disadvantages such as multiple building setback lines and more traffic noise. Corner lots are typically larger than interior sites and may be subject to higher assessments because they have more sidewalk area and street frontage. Cul-de-sac lots are located at the end of dead-end streets with circular turn-around areas. Generally these lots are tapered (pie-shaped) and have very little frontage. Cul-de-sac lots may have bigger backyards and less traffic, but there may be limited street parking. A flag lot has a long narrow access way; the lot and access route resemble a flag on a pole.

Access to a site impacts utility and is closely related to the lot's shape. A public street or alley, a private road or driveway, or a right-of-way may provide access across an abutting property.

The utility of a site is generally referred to as "typical for area," "better than average," or "less than adequate." The utility of a site is directly correlated with the dimensions, area, shape, and legal restrictions of the lot. If site utility is not "typical," the narrative comments section and subsequent analysis should report the positive or negative impact of utility on the marketability of the site.

**View.** The view from a property can substantially affect its value. Sites with views of water, mountains, valleys, or man-made features such as golf courses may be more marketable and command higher prices than sites lacking similar views. A commanding view of the surrounding landscape can sometimes compensate for adverse topographical or climatic characteristics. Similarly, a poor view can create a value penalty. The appraiser should also consider the likelihood of the property's view being obstructed in the near future.

**Drainage.** Drainage depends on natural topography and the ability of the soil to absorb water. Natural drainage may be a problem if the site is downhill or downstream from properties that have a right to direct the flow of water onto it. The appraiser must consider whether any of the topographical features of the site increase or decrease its susceptibility to flooding compared to other neighborhood properties. The appraiser should be particularly concerned with how the site's drainage may affect the improvements.

**Site Similarity/Conformity to Neighborhood.** After observation and research, the appraiser should note how the site's size and view relate to other sites in the area (i.e., "smaller than," "larger than," "attractive view," "poor view"). The information in this section must be consistent with the previously reported information on area and view. The similarity and conformity of a site to the neighborhood and the impact on value should be further described in the site description section.

**Zoning/Deed Restriction.** This section calls for the zoning of the site to be identified. Zoning ordinances and deed restrictions can regulate almost any aspect of property use and should be thoroughly researched. The appraiser should analyze and consider the impact of ordinances and restrictions on the marketability and use of the site. Additional narrative comments on the positive and negative impacts of zoning should be handled in the site description section.

**Utilities/Off Site Improvements.** The appraiser investigates all utilities and services available to the site. It is not sufficient to simply establish which utilities are available. Any limitations resulting from a lack of utilities are important to the highest and best use analysis and all alternative sources of utility service should be investigated. Both highest and best use and site value may be strongly affected by the availability of utilities.

Off site improvements should be noted. If they are not typical for the neighborhood (either by their presence or absence), this should be further analyzed in the site description section.

**Site description and characteristics.** In this site analysis section, the appraiser specifically describes all beneficial and detrimental conditions and influences affecting the site and provides additional information on any of the above-referenced factors which may need more comment. General references should be avoided and the appraiser should strive to record precise, detailed, assignment-specific information.

# Page Four – Improvements Analysis and Highest and Best Use

<b>Client:</b>		<b>Client File #:</b>	
<b>Subject Property:</b>		<b>Appraisal File #:</b>	

IMPROVEMENTS ANALYSIS						
<b>General</b>	Design: _____	No. of Units: _____	No. of Stories: _____	Actual Age: _____	Effective Age: _____	
<input type="checkbox"/> Existing <input type="checkbox"/> Under Construction <input type="checkbox"/> Proposed <input type="checkbox"/> Attached <input type="checkbox"/> Detached <input type="checkbox"/> Manufactured <input type="checkbox"/> Modular						
Other: _____						
<b>Exterior Elements</b>	Roofing: _____	Siding: _____	Windows: _____			
<input type="checkbox"/> Patio _____ <input type="checkbox"/> Deck _____ <input type="checkbox"/> Porch _____ <input type="checkbox"/> Pool _____ <input type="checkbox"/> Fence _____						
Other: _____						
<b>Interior Elements</b>	Flooring: _____	Walls: _____	FP# _____			
Kitchen: <input type="checkbox"/> Refrigerator <input type="checkbox"/> Range <input type="checkbox"/> Oven <input type="checkbox"/> Fan/Hood <input type="checkbox"/> Microwave <input type="checkbox"/> Dishwasher    Countertops: _____						
Other: _____						
<b>Foundation</b>	<input type="checkbox"/> Crawl Space _____		<input type="checkbox"/> Slab _____		<input type="checkbox"/> Basement _____	
Other: _____						
<b>Attic</b>	<input type="checkbox"/> None <input type="checkbox"/> Scuttle _____		<input type="checkbox"/> Drop Stair _____		<input type="checkbox"/> Stairway _____ <input type="checkbox"/> Finish _____	
<b>Mechanicals</b>	HVAC: _____		Fuel: _____		Air Conditioning: _____	
<b>Car Storage</b>	<input type="checkbox"/> Driveway _____		<input type="checkbox"/> Garage _____		<input type="checkbox"/> Carport _____ <input type="checkbox"/> Finished _____	
<b>Other Elements</b>	_____					

Above Grade Gross Living Area (GLA)											
	Living	Dining	Kitchen	Den	Family Rm.	Rec. Rm.	Bdrms	# Baths	Utility	Other	Area Sq. Ft.
Level 1											
Level 2											
Finished area above grade contains: <input type="text"/> Bedroom(s) <input type="text"/> Bath(s) <input type="text"/> Sq. Ft. of GLA											
Summarize above grade improvements:											

Below Grade Area or Other Living Area											
	Living	Dining	Kitchen	Den	Family Rm.	Rec. Rm.	Bdrms	# Baths	Utility	% Finished	Area Sq. Ft.
Below Grade											
Other Living Area											
Summarize below grade and/or other living area improvements:											
Discuss physical depreciation and functional or external obsolescence:											
Discuss style, quality, condition, size, and value of improvements including conformity to market area:											

HIGHEST AND BEST USE ANALYSIS	
<input type="checkbox"/> Present Use <input type="checkbox"/> Proposed Use <input type="checkbox"/> Other _____	
Summary of highest and best use analysis:	

## Improvement Analysis

The improvements section provides the appraiser with an opportunity to quickly summarize typical improvement amenities. The improvement description and analysis can help an appraiser lay the groundwork to:

- Select suitable comparable properties
- Estimate reproduction or replacement costs
- Adequately collect data on operating and maintenance expenses
- Guide the reader to a clear understanding of the property characteristics for which the value is being sought

The quality of the improvements description and analysis directly affects the reliability of all three approaches to value. The reliability of the data will be based upon the scope of work decision and the sources of verification utilized (type of inspection, data sources relied upon, etc.).

### General

The initial improvement analysis begins with a general description of the building improvements.

**Design.** Architectural style or design is the character of a building's form and ornamentation. A wide variety of styles may be identified—e.g., ranch, traditional, colonial, contemporary, log home, doublewide. The descriptive term used should be the term that is common of the market where the dwelling is located.

One important factor affecting the desirability of a particular design or style of property is its conformity or compatibility with the standards of the market. *This should be addressed within the narrative section at the bottom of the improvements analysis section.* (For a better understanding of architectural compatibility and incompatibility, trends in architectural styles, and types of residential improvements, reference *Appraising Residential Properties*, 3<sup>rd</sup> edition, pages 125-136.<sup>1</sup>)

**No. of Units/No. of Stories.** Indicate the number of legal housing units in the property that is the subject of the appraisal, and record the number of stories above grade that are included in the gross living area. *Basement areas and finished attic areas are not included in the number of stories.*

**Actual Age.** The actual age, which is sometimes referred to as the “historical age” or “chronological age,” is the number of years that have elapsed since the building construction was completed. The figure is generally reported in years or the word “new” is used. “UC” is often used for homes under construction but an appraisal of a home under construction typically reflects the value of the home “as if new” on the date of the appraisal. Generally, age begins at occupancy if occupancy occurs shortly after completion of construction. If a residence has been vacant for an extended period after completion of construction, however, the appraiser should use judgment in assigning a figure. An explanation should be offered if the age reported does not begin at the completion of construction.

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<sup>1</sup> Appraisal Institute, *Appraising Residential Properties*, 3<sup>rd</sup> ed. (Chicago: Appraisal Institute, 1999).

**Effective age.** Effective age is the age indicated by the condition and utility of the structure. Effective age can be more, less, or the same as actual age. The effective age estimate takes into consideration abuse, neglect, general maintenance, and all other influences on the physical condition of the improvements and is determined by an appraiser’s judgment, not through market derivation. The functional utility of the improvements may also be a factor in estimating an effective age.

**Existing/Under Construction/Proposed.** These entries are self-explanatory. The appraiser chooses one option.

**Attached/Detached.** Attached improvements share a common wall with another structure that is not part of the property being appraised—e.g., an attached townhouse. A detached dwelling is not adjoined to improvements that are not part of the appraisal.

**Manufactured/Modular.** *Manufactured* homes are built in a factory and must conform to federal building codes (U.S. Department of Housing and Urban Development). A manufactured house is built on a nonremovable steel chassis and transported to the home site on its own wheels. *Modular* housing must meet state and local building code requirements. Such homes typically come from the factory in sections of one or more rooms that are fitted together at the home site.

**Other.** This space is used to explain any items requiring elaboration—e.g., “under construction and 95% complete,” or “manufactured home, model no. 629 and serial no. 156.”

### Exterior Elements

This section is used to report on the exterior elements of the subject property features. The Other section can be used to identify any additional elements and discuss items not indicated or adequately explained by the available choices. Comments such as “concrete patio cracked,” “redwood deck with railing and hot tub,” “large, covered wraparound porch,” “heated in-ground fiberglass pool with diving board,” can be made here and reiterated in the narrative section.

### Interior Elements

Indicate the presence of any of these interior elements by checking the appropriate boxes. Identify additional interior elements in the Other space provided.

### Foundation

Check the appropriate box for the type of foundation. If the subject property features a basement area, use the space allowed to indicate whether it is a full or partial basement. If a property features multiple foundation types, the appraiser may choose to report a percentage of basement area in the space provided.

In the spaces provided next to the given choices (crawl space, slab, basement), the appraiser may choose to indicate the type of materials used for the foundation such as: wood, poured concrete, or concrete block. Or the appraiser may choose to elaborate the type of materials in the Other section provided. Additional Other comments may include elaboration such as: “foundation settlement noted, assumed typical for area,” “foundation inspection required,” and “basement area partially finished.”

Depending upon the comments made here, the appraiser may find it necessary to reiterate or expound on these brief notations in the narrative section on this page.

**Attic**

**Mechanicals**

**Car Storage**

**Other Elements**

The Attic, Mechanicals, and Car Storage sections are self-explanatory. Any additional comments regarding access, conformity, or condition should be recorded in the narrative section provided below.

Use the Other Elements section to discuss physical features and elements not previously addressed, especially those that impact value or marketability.

### Above Grade Gross Living Area (GLA)

Most residential properties are measured in terms of gross living area—the total area of finished, above grade residential space. According to the Appraisal Institute’s residential textbook, “Determining the size of a building is sometimes a formidable task. Methods and techniques for calculating building size vary regionally and according to property type; local practices may reflect biases that significantly affect value opinions. Appraisers must be familiar with the measurement techniques used in their areas as well as those used elsewhere in the market. An appraiser must also be consistent in the use, interpretation, and reporting of building measurements within each assignment. Failure to do so can adversely affect the quality of the appraisal report.”<sup>2</sup>

**Note:** The American National Standards Institute (ANSI) sets forth a methodology and standards that are becoming more commonly accepted by appraisers. However, local customs should dictate the manner in which the GLA is calculated. Any significant factors that might affect the report user’s perception should be disclosed and discussed.

Gross living area is generally based on the exterior dimensions of the structure at each level built above grade. (Condominiums are measured differently, generally from the interior of exterior walls.)

A walkout basement with finished rooms is generally not included in the above grade room count or GLA, regardless of the quality of finish or the presence of windows. If below grade living area is included in the GLA in a particular market, this should be appropriately explained and justified.

*Regardless of the quality of finish or presence of air conditioning, any room that must be accessed from outside the main living area should not be included in above grade GLA. Converted garages and attics may or may not be included.*

Whatever the local guidelines, the appraiser’s comments in this area should specify what area has been included in the above grade GLA and the method of measurement used.

**GLA Grid.** The appraiser indicates the number of finished rooms by type for each level. For dwellings with more than two levels, the additional blank line is used. The GLA per level is provided in the last column of the grid, which calculates to a total GLA.

**Summarize above grade improvements.** In this space, the appraiser provides comments relating to the above grade improvements—e.g., “The subject has a typical floor layout.” “The subject does not have a formal dining room, which is typical of most homes in the area.” “The subject’s kitchen has been recently updated with new countertops, floor coverings, and all new equipment.” “The residence has two master bedrooms, which has become a popular feature of homes in this area.”

### Below Grade Area or Other Living Area

Because the existence of below grade areas vary by region, this grid can be utilized for either below grade or “other” living area, such as nanny quarters over a garage or a guest house. Other living area

<sup>2</sup> Appraisal Institute, *Appraising Residential Properties*, 122.

includes any dwelling or area that requires exiting the main structure to obtain access—e.g., detached or attached quarters, studies, or game rooms. Additions, attic conversion, and garage conversions may be considered other when there is no access from the main structure.

As in the GLA grid, the appraiser should report the number of each type of room and the square footage of any part of the dwelling that is either below grade level or separate from the above grade living area.

**Summarize below grade and/or other living area improvements.** In this space the appraiser provides comments related to the below grade area or other living area improvements, utilities, features, qualities, and conditions.

Sample comments might include the following:

*The attached nanny quarters is only accessible through the garage and has **NOT** been included in the main gross living area. It is equipped with central air and heat and the quality of finish is similar to the main residence. There are few, if any, other homes in the area with similar quarters. This area, however, is believed to increase property value and marketability and its contributory value has been reflected in the value estimate.*

*The subject features an enclosed garage that is finished and ducted for air conditioning. Due to its size and its access through the utility room, it is not included in the main GLA. Its contributory value has been included in the value estimate. There are other garage conversions in the area but such areas are not common.*

**Discuss physical depreciation and functional or external obsolescence.** In this section, the appraiser should discuss any physical depreciation and functional or external obsolescence that may be associated with the subject improvements.

Depreciation is a loss in the value of the improvements due to any cause including:

- Physical deterioration
- Functional obsolescence
- External obsolescence

The appraiser's comments should address the need for repairs or modernization and any property condition that is substantially different from general property conditions in the market area.

The appraiser should discuss the physical deterioration of the property resulting from normal wear and tear, deferred maintenance, and damage. The appraiser should also note items of deterioration about which he or she is not qualified to make a judgment. A professional in the particular field should be consulted for deteriorated foundations, structural items, roofs, plumbing, and electrical systems.

The appraiser should report **functional obsolescence** and explain the impact on value and how it was considered in the applicable approaches to value. Functional inadequacies affect the utility and

marketability of the property. Examples of functional inadequacies include a nonconforming design, an unusual floor plan, odd-size improvements, and construction materials that vary from the norm.

Influences outside the property boundaries that *negatively*<sup>3</sup> impact the value of the property are considered to be **external obsolescence** and should always be addressed. These factors generally affect both the site and the improvements. The portion of the total value influence that can be attributed to the improvements is external obsolescence. The appraiser should explain the source of external obsolescence, how it impacts the value of the property, and how it is reflected in the valuation of the property.

**Discuss style, quality, condition, size, and value of improvements including conformity to market area.** The appraiser should describe the improvements and how they fit in with the neighborhood. Conformity to a market area is influenced by a variety of factors including:

- Zoning
- Construction and maintenance costs
- Land value
- The physical features of a site
- Architectural trends
- Technology

Aspects of the property that significantly influence value or are important to the client or user of the report should be discussed in detail. The impact of a nonconforming building design should be carefully considered.

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<sup>3</sup> Do not confuse external obsolescence, which can *only be negative*, with *externalities*, which can be either positive or negative. Externalities that have a positive influence are most often described and analyzed in the market area or site analysis sections.

## Highest and Best Use Analysis

Highest and best use analysis is a critical part of any market value appraisal. Highest and best use analysis tells the appraiser what the market believes the subject real estate to be and how it will be used. In many cases, the highest and best use is obviously the current use. But the appraiser must keep alert to the possibility that this is not always the case. For example, the highest and best use of a residence that is surrounded by commercial uses may be to demolish that residence and develop the site with a commercial use.

*The Dictionary of Real Estate Appraisal*, fourth edition, includes the following highest and best use definitions:

- **Highest and best use.** The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability.<sup>4</sup>
- **Highest and best use of land or a site as though vacant.** Among all reasonable, alternative uses, the use that yields the highest present land value, after payments are made for labor, capital, and coordination. The use of a property based on the assumption that the parcel of land is vacant or can be made vacant by demolishing any improvements.<sup>5</sup>
- **Highest and best use of property as improved.** The use that should be made of a property as it exists. An existing property should be renovated or retained as is so long as it continues to contribute to the total market value of the property, or until the return from a new improvement would more than offset the cost of demolishing the existing building and constructing a new one.<sup>6</sup>

In analyzing highest and best use, consider legally permissible uses, then physically possible uses, then financially feasible uses. Finally, of those, determine which use is maximally productive (that is, brings the highest economic return). Another way of analyzing highest and best use is to examine which of the three following possibilities makes the most sense for the subject property:

1. Demolish the existing improvements and redevelop
2. Remodel, add on, or otherwise modify the existing improvements
3. Keep the improvements as they currently exist

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<sup>4</sup> Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 4<sup>th</sup> ed. (Chicago: Appraisal Institute, 2002), 135.

<sup>5</sup> Ibid.

<sup>6</sup> Ibid., 135-136.

Sample comments might include:

*The subject site is in a residential development surrounded by other residences. There is little doubt that the highest and best use is for a residential structure similar to those on similar surrounding lots. A single-family residential use is in conformance with the zoning of the site and is believed to be the only likely use.*

*The subject improvements are similar to others in the neighborhood and are in legal conformance. Significantly different improvements would not meet apparent market demand. A particular purchaser would be unlikely to consider any other type of improvement or a significantly smaller or larger residence than the one that currently exists. As such, in the appraiser's opinion, the existing improvements represent the highest and best use.*



## Site Valuation

### Site Valuation Methodology

The appraiser needs to select the method by which he or she will estimate the value of the subject site. There are several recognized methods that can be used to estimate site value for the subject property. The appraiser should note the method used by checking the appropriate box. It is acceptable to check more than one box, but the appraiser should clearly explain the reasoning for using multiple methods. For example, if sales of vacant land are limited, the appraiser may elect to use a combination of vacant land sales and improved sales. In this case, the analysis would be based on both sales comparison and on the market extraction method and the appraiser would check both boxes.

**Sales Comparison Approach.** The sales comparison approach is generally the preferred method for site valuation and should be used when adequate sales of similar vacant property are available. When comparable sales are lacking, the appraiser may elect to use a different method.

**Market Extraction Method.** When sales that can be compared with the subject site are unavailable, the market extraction method may be used. This method is considered less accurate than sales comparison due to the difficulty of estimating the depreciated cost of the improvements.

**Alternative Method.** There may be times where the assignment calls for use of an alternative method. However, using an alternative method can result in an opinion of site value that does not comply with the definition of market value. Furthermore, when an alternative method is used, the appraiser must disclose the methodology and the reason for its use. It is imperative that the appraiser provides sufficient narrative to avoid misleading readers of the report.

### Site Valuation

The site valuation grid can be used for either the sales comparison approach or market extraction method. The grid provides a simple format for the appraiser to make side-by-side comparisons between the subject and pertinent comparable sites.

In the sales comparison approach, the appraiser

1. Collects data on sales of similar land parcels or sites as well as information on listings and offers
2. Analyzes the data to determine compatibility with the subject site and develops appropriate units of comparison
3. Adjusts the sale prices of the comparables to reflect differences
4. Reconciles these adjusted sale prices into a single value indication or a range of values

The grid on this appraisal form is presented in a logical and thorough sequence to allow specific features of the comparable properties to be noted, analyzed, adjusted, and compared to the subject. The task of the appraiser is to apply realistic market-based adjustments.

**Address.** The appraiser should enter the complete property street address and unit number (if applicable) for each comparable property. He or she should also note the city, state, and zip code. The subject address should match the address on page one of the report. If there is no street address, a known identifier that will not mislead the reader of the report should be recorded.

**Proximity to Subject.** The appraiser will indicate the distance between the comparable and the subject, either in miles or blocks, and note the direction—e.g., *1.5 miles northeast* or *4-5 blocks south*.

**Sale Price.** The confirmed sale price of the comparable should be entered. If the comparable is a pending sale, active listing, or a tax assessment value, this fact should be noted in the Sale Date section of the grid. *Use of a market indication other than a confirmed sale price should also be fully disclosed and discussed in the Site Valuation Comments and Site Valuation Reconciliation sections.*

**Price/\_\_\_\_\_.** This line of the comparison grid is provided so that the appraiser can record the unit of comparison applied to the properties that are compared to the subject. Price per acre, price per square foot, and price per front foot are common units of comparison that the appraiser may consider. This is an assignment-specific determination and should be considered within the initial data gathering and analysis phase of this task.

**Data Source/Verification.** In this section, the appraiser indicates the source(s) of the information used to confirm both the property characteristics and the terms of the sale. Sources may include public records; recorded affidavits; stamp recordings; interviews with buyers, sellers, developers, or other parties with knowledge of the transaction; or any other reliable sources. It is the appraiser's responsibility to verify and confirm all information.

**Sale Date.** The appraiser will enter the close of escrow or recording date. This is the date the transaction was completed and ownership was transferred. If the comparable is a pending sale or an active listing, the appraiser may enter this information here as well.

**Location.** Location must be carefully considered when comparing similar properties in different locations. Traffic patterns, shopping, hospitals, schools, crime rates, and the quality and condition of nearby properties are locational characteristics that have an influence on property value. Properties with virtually identical physical characteristics in different locations may have dramatically different values. An adjustment for location must be based on a thorough analysis of market evidence and may identify value differences that are not explained by other components of value.

**Site Size.** In this section, the appraiser will enter the site size using the appropriate units of comparison already identified for the properties being analyzed. Square footage, acreage, and frontage are common units of comparison for site valuation. Adjustments for size differences should be based on analysis of market evidence to determine the impact of size on value.

**Site View.** The appraiser enters a description of the view afforded the subject and the comparables as well as a descriptive term for the comparison. Again, adjustments should be based on analysis of market evidence.

**Site Improvements/Blank Lines.** The site valuation grid of this report provides several lines for other items of site improvements to be presented, compared, and adjusted. On these lines the appraiser can enter an opinion of the depreciated cost of the improvements when the market extraction method is used. The appraiser can use the remaining lines as necessary for additional comparison that is assignment specific. Examples may include additional location or site amenities such as location on gravel versus paved road; extensive timber; topography; or utilities.

**Note:** All adjustments for differences should be based upon market evidence.

**Net/Gross Adjustments and Indicated Value.** The sum of the adjustments to each comparable result in the net adjustment, which is applied to the comparable to derive an adjusted sale price. The adjusted sale prices of the comparable properties are reconciled into an opinion of value for the subject property.

**Site Valuation Comments.** The appraiser should provide a discussion of the site valuation methodology used. The basis for and source of each adjustment should be explained. If necessary, the appraiser should comment on the rationale for using multiple methodologies in the site valuation grid.

**Site Valuation Reconciliation.** The appraiser should discuss the reliability and consideration of each comparable analyzed. The selection of the final opinion of site value should be explained in the context of the values indicated by the comparables. The procedure employed to develop the final opinion of value should be discussed. For example, the appraiser may elect to use weighted average comparables, placing more emphasis on the indicated value of one comparable. The reasoning behind the procedure employed to develop the final opinion should be explained.

**Opinion of Site Value.** The appraiser will express his or her opinion of value as either a single point value conclusion or as a range of values.

# Page Six – Cost Approach

<b>Client:</b>		<b>Client File #:</b>	
<b>Subject Property:</b>		<b>Appraisal File #:</b>	
<b>COST APPROACH</b>			
<b>Cost Approach Definitions</b>			
<input type="checkbox"/> <b>Reproduction Cost</b> is the estimated cost to construct, at current prices as of the effective appraisal date, an exact duplicate or replica of the building being appraised, using the same materials, construction standards, design, layout, and quality of workmanship, and embodying all of the deficiencies, superadequacies, and obsolescence of the subject building.			
<input type="checkbox"/> <b>Replacement Cost</b> is the estimated cost to construct, at current prices as of the effective appraisal date, a building with utility equivalent to the building being appraised, using modern materials and current standards, design and layout.			
<b>Cost Approach Analysis</b>			
<b>Estimated Cost New</b>			
Above Grade Living Area	Sq. Ft. @ \$	=	\$
Finished Below Grade Area	Sq. Ft. @ \$	=	\$
Unfinished Below Grade Area	Sq. Ft. @ \$	=	\$
Other Living Area	Sq. Ft. @ \$	=	\$
Car Storage	Sq. Ft. @ \$	=	\$
			\$
			\$
			\$
<b>Total Estimated Cost New</b>			\$
Less Depreciation			
Physical	% = \$		
Functional	% = \$		
External	% = \$		
Total Depreciation			\$
Depreciated Value of Improvements			\$
Contributory Value of Site Improvements			\$
			\$
			\$
			\$
Opinion of Site Value			\$
Indicated Value			\$
Cost Approach Comments (Data Sources, Depreciation Basis, Site Value, Etc.):			
Cost Approach Reconciliation:			
<b>Indication of Value by Cost Approach</b>			\$

## Cost Approach

“The cost approach to estimating value is based on the reasoning that a purchaser will not normally pay more for a property than it would cost to purchase comparable land and have improvements of comparable utility constructed on that land without undue delay. To apply the cost approach, an appraiser estimates the cost of reproducing or replacing the existing structure with a new building, deducts an appropriate amount for the loss in value caused by depreciation in the existing structure, and then adds the value of the depreciated improvements to an estimate of the value of the land.”<sup>7</sup>

This AI Reports™ form has been designed to provide the appraiser with a simplified format to report the results of the cost approach analysis.

### Cost Approach Definitions

**Reproduction/Replacement Costs.** The appraiser needs to select the cost basis used to develop the cost approach. It is possible to employ both reproduction and replacement cost in developing a value indication with the cost approach, but the rationale for selecting both should be fully explained.

### Cost Approach Analysis

**Estimated Cost New.** In this section the cost of various improvements are calculated on a square-foot basis. The report is designed to accommodate descriptions of the heated and cooled living area above grade. Below grade areas can be segregated into finished and unfinished areas. Use the Other Living Area line for ancillary improvements such as guest cottages and separate living suites. The car storage section can be used for any type of parking enclosure.

In addition to the cost-per-square-foot entries, the form provides three additional lines for lump-sum cost items. The appraiser should use the space, as necessary, to describe the improvements and show the cost in the column at the right.

Entrepreneurial incentive and marketing expenses are two examples of costs that are not typically included in the estimates provided by cost services. If cost data is market derived from local contractors, these costs may have been considered within the cost estimate. It is important for the appraiser to identify and explain any additional costs such as entrepreneurial profit or marketing expenses if it is provided as a separate line item.

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<sup>7</sup> Appraisal Institute, *Appraising Residential Properties*, 245.

**Total Estimated Cost New.**

**Less Depreciation:** Depreciation is separated into three recognized forms:

**Physical Deterioration.** An element of depreciation; loss in value caused by wear, tear, age, and use. **See also curable physical deterioration; incurable physical deterioration; long-lived item; short-lived item.**<sup>8</sup>

**Functional Obsolescence.** An element of depreciation resulting from deficiencies or superadequacies in the structure. *See also curable functional obsolescence; incurable functional obsolescence.*<sup>9</sup>

**External Obsolescence.** An element of depreciation; a defect caused by negative influences outside a site and generally incurable on the part of the owner, landlord, or tenant.<sup>10</sup>

The form provides spaces to record the effective age and economic life, which are used to calculate the percentage of depreciation by the effective age/economic life method. The appraiser can enter a percentage or whole dollar amount when an alternative method is used to calculate depreciation. Depreciation for functional and external obsolescence can be entered as percentages or whole dollar amounts.

**Site Improvements.** The appraiser needs to identify the as is or contributory value of the site improvements.

Improvements on and off a site that make it suitable for its intended use or development. On-site improvements include grading, landscaping, paving, and utility hookups; off-site improvements include streets, curbs, sidewalks, drains, and connecting utility lines.<sup>11</sup>

The contributory value of the site improvements is included as a separate line item after the depreciation section because depreciation for site improvements typically varies significantly from depreciation for other improvements.

**Additional Cost Items.** The form provides three blank lines below the site improvements line so the appraiser can record additional cost components, which may be either regional or assignment specific, that have not been addressed.

**Note:** It is important to recognize that any additional cost items should reflect as is or contributory value because this section follows the depreciation section.

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<sup>8</sup> Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 213.

<sup>9</sup> *Ibid.*, 122.

<sup>10</sup> *Ibid.*, 106.

<sup>11</sup> *Ibid.*, 266.

**Opinion of Site Value.** In this section, the appraiser should take caution not to confuse *Land Value* with *Site Value*. Although the terms *site* and *land* are sometimes used synonymously, these concepts must be differentiated in an appraisal.

A parcel of land is a portion of the earth's surface in its natural state, while a site is land that has been improved—e.g., cleared, graded, provided with utilities, drainage, and access—to prepare for its intended use. Consequently, a site often has more value than a parcel of raw land.

It is useful to distinguish between site improvements **to** a site and site improvements **on** a site. Site improvements to a site are improvements such as clearing that *transform* a parcel of land *into* a site, and they are included in the value of the site as though vacant. In contrast, site improvements on a site are improvements such as landscaping that *contribute additional value* to the site, and they are not included in the value of the site as though vacant. . . .

If an estimate of raw land value is used in the cost approach, the depreciated value of the improvements, which is added to the value of the land, must reflect the value contribution of clearing, grading, drainage, soil compaction, installation of utilities, and other onsite and offsite improvements that were not included in the land value component.<sup>12</sup>

It is recommended that a site value be used. However, if the appraiser wishes to utilize a land value, he or she should identify this in the space provided after the Opinion of Site Value and make comments as necessary in the narrative section of this page so that the reader of the report is not misled.

**Cost Approach Comments.** The appraiser should provide a brief summary of the cost approach analysis, including what, if any, published cost estimation service(s) were relied upon, as well as a basis for depreciation considered or site value.

In addition to a discussion of the source(s) of cost data, the appraiser should explain the site valuation process. If the appraisal report includes a site valuation section, the appraiser could simply refer to that section. If the site valuation is retained in the appraiser's file, the appraiser should provide a brief discussion of the methodology employed (see page five – Site Valuation).

**Cost Approach Reconciliation.** The appraiser should discuss the reasoning behind the cost data source selected and the methodology used to develop an estimate of depreciation. The appraiser should also describe the methodology used to develop the opinion of site value and may wish to comment on the reliability of this approach in this section. The appraiser may wish to supplement any previous comments regarding multiple sources of cost data, which may result in a range of costs.

**Indication of Value by Cost Approach.** The appraiser will express his or her opinion of value as either a single point value conclusion or as a range of values.

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<sup>12</sup> Appraisal Institute, *Appraising Residential Properties*, 229-230.

# Page Seven – Income Approach

<b>Client:</b>		<b>Client File #:</b>	
<b>Subject Property:</b>		<b>Appraisal File #:</b>	
<b>INCOME APPROACH</b>			
<b>Market Rent Analysis</b>			
<b>ITEM</b>	<b>SUBJECT</b>	<b>RENTAL 1</b>	<b>RENTAL 2</b>
Address			
Proximity to Subject			
Data Source/ Verification			
Lease Term			
Date of Lease			
Rent / _____		\$	\$
Rent Concession			
Less Utilities			
Less _____			
<b>Adjusted Market Rent</b>			
Location			
Site/View			
Quality of Construction			
Age/Condition			
Above Grade Bedrooms	Bedrooms	Bedrooms	Bedrooms
Above Grade Baths	Baths	Baths	Baths
Gross Living Area			
Below grade area			
Other living area			
Heating/Cooling			
Car Storage			
Net Adjustment			
Indicated Market Rent			
Rent comparable analysis and reconciliation of market rent of subject property:			
Opinion of Market Rent			\$
<b>Gross Rent Multiplier Analysis</b>			
<b>ADDRESS</b>	<b>DATE</b>	<b>SALE PRICE</b>	<b>GROSS RENT</b>
Comment and reconciliation of the gross rent multiplier (GRM):			
Opinion of Market Rent \$ _____ X _____ GRM = \$			
<b>Indication of Value by Income Approach</b>			<b>\$</b>

## Income Approach

Valuation of a property by the income approach may be accomplished by applying the income capitalization approach or by using a gross rent multiplier. The income approach is a set of procedures through which an appraiser derives a value indication for an income-producing property by converting anticipated benefits (cash flow and reversion) into property value. A gross rent multiplier (GRM) reflects the relationship or ratio between the sale price or value of a property and its gross income. The most common method in appraising single-family residences is to apply a GRM, calculated as the monthly rent divided into the sale price.

**Note:** Although the most common income method for valuing a single-family residential property is the gross rent multiplier (GRM), alternative methods may be used depending on the custom of the particular market area and the intended use of the report.

The adjustments in the market rent grid may be made using either a qualitative or quantitative method. The comparables selected should be rented properties that are representative of the subject's market segment. The rent adjustments applied are based on analysis of market behavior.

The GRM is derived from sales of leased properties. The GRM is not to be adjusted, as it is a function of the relationship between rent and sale price. The GRM is analyzed in reconciling the final value estimate for the subject property.

### Market Rent Analysis

The market rent analysis grid provides an easy format for the appraiser to make side-by-side comparisons between the subject and pertinent comparable rentals.

In the market rent comparison, the appraiser

1. Collects data on sales of similar leased properties and information on listings and offers
2. Analyzes the data to determine compatibility with the subject property and develops appropriate units of comparison
3. Adjusts the sale prices of the comparables to reflect differences
4. Reconciles these adjusted sale prices into a single rent indication or a range of market rents

**Address.** The complete property street address and unit number (if applicable) for each comparable property should be entered. The appraiser should also note the city, state, and zip code. The subject address should match the address on page one of the report. If there is no street address, record a known identifier that will not mislead the reader of the report.

**Proximity to Subject.** The appraiser should indicate the distance between the comparable and the subject, either in miles or blocks, and note the direction—e.g., *1.5 miles northeast* or *4-5 blocks south*.

**Data Source/Verification.** The source(s) of the information used to confirm both the property characteristics and the terms of the lease should be indicated here. Sources may include public records; recorded affidavits; stamp recordings; interviews with buyers, sellers, developers, or other

parties with knowledge of the transaction; or any other reliable sources. It is the appraiser's responsibility to verify and confirm all information.

**Lease Term.** The appraiser enters the length of the lease for the subject and comparables. The term may be annual, month-to-month, or other.

**Date of Lease.** The beginning date of the leases for the subject and comparables should be entered here, if known.

**Rent.** The appraiser enters the amount of rent per period for the subject and comparables—e.g., monthly, annual.

**Rent Concession.** The appraiser records any known rent concessions applicable to the comparables. The adjustments indicated should reflect the impact on the rent per period.

**Less Utilities.** The appraiser should record any paid utilities and adjust the comparable prices to the subject to reflect the impact of the differences in utility expenses. For example, if the subject's tenants pay all utilities and the electric expense is included in the rent for the comparable, a negative (-) adjustment should be made to the comparable rent.

**Less \_\_\_\_\_.** The appraiser should use this line to add and adjust the comparables to reflect any necessary adjustments for differences in factors that affect rent by region or market area.

**Adjusted Market Rent.** The appraiser totals the above adjustments to the rent per period. The adjusted market rent makes each comparable rental equal to the subject in concessions, utilities, and other features.

**Location.** Location must be carefully considered when comparing similar properties in different locations. Traffic patterns, shopping, hospitals, schools, crime rates, and the quality and condition of nearby properties are factors that have an influence on property value. Properties with virtually identical physical characteristics in different locations may demand dramatically different rents. An adjustment for location must be based on a thorough analysis of market evidence and may identify value differences that are not explained by other components of value.

**Site/View.** Typically, site and view are not considered overly pertinent factors to the tenant; however, it should be considered when commanding views or site appeal can be shown to impact a renter's decision. The appraiser adjusts the comparables, as necessary, to the subject for factors such as size, view, topography, utility, and desirability.

**Quality of Construction.** Quality of construction items that may influence market rent can be interior or exterior construction details or finishing materials.

**Age/Condition.** Age and condition are considered in one element of comparison for the analysis of market rent, as most renters are interested in the overall condition of a property more than the age

due to typically short-term interest. The appraiser should enter the *actual age*<sup>13</sup> of the subject and comparable rentals along with a condition rating (e.g., 35 yr./average). The appraiser should analyze and adjust accordingly how the age and overall condition impact the market rent.

**Above Grade Bedrooms/Baths.** The comparable to the subject for the influence of the number of bedrooms and baths on the market rent should be adjusted.

**Gross Living Area/Below Grade Area/Other Living Area.**<sup>14</sup> The appraiser should report the amount of gross living area, living area below grade, and other living area on the market rent and adjust as necessary for differences.

**Heating/Cooling and Car Storage.** The appraiser will report the pertinent data and adjust as necessary for market reaction to the specific elements. The reporting of car storage should be reflective of the number of parking spaces as well as the type (garage, carport, off street).

**Blank Lines.** The appraiser can use the remaining lines as necessary for additional comparison elements that have an influence on market rent. Examples may include outdoor amenities such as decks, pools or patios, or interior amenities such as fireplaces or laundry facilities.

**Net Adjustment and Indicated Market Rent.** The sum of the adjustments to each comparable rental result in the net adjustment, which is applied to the comparable to derive and adjust market rent. If a qualitative method is used, the net adjustment would be shown with a plus or minus sign. The adjusted rent of the comparables is reconciled into an opinion of market rent for the subject property.

**Rent comparable analysis and reconciliation of market rent of subject property.** The appraiser should use this space to discuss the adjustments and the analysis of the comparables as well as the basis for the final opinion of market rent.

**Note:** All adjustments for differences should be based upon market evidence.

**Opinion of Market Rent.** The appraiser will express his or her opinion of value as either a single point value conclusion or as a range of values.

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<sup>13</sup> Previously defined in the Improvements Analysis section of this guidebook on page 18.

<sup>14</sup> Previously defined in the Improvements Analysis section of this guidebook on page 21-22.

## Gross Rent Multiplier Analysis

“A Gross Rent Multiplier (GRM) reflects a typical ratio between the value or sale price of a property and its gross rent, which is the gross monthly rental income at the time of sale before expenses or vacancy and collection losses are deducted. When this ratio is applied to the subject property’s market rent it will provide a reliable value indication if the properties from which it was derived are truly comparable. The division of utility expenses between tenants and the landlord must be similar. The properties analyzed must also have similar expense-to-income ratios and lease terms.”<sup>15</sup>

In the GRM Analysis, the appraiser should complete the grid with up to four properties (if more properties are applicable, then annotation with addendum is an option). Property information needed includes:

- Address
- Date (of sale)
- Sale Prices
- Gross Rent
- GRM
- Comments

The GRM is the sale price divided by the monthly rent. A small comment area is provided for information that may influence the GRM, such as tenant-paid utilities or non-market lease terms. Additional comments may be added in the comment and reconciliation section or in an attachment.

**Comment and reconciliation of the gross rent multiplier (GRM).** The appraiser should use this space to provide narrative analysis of the sales used to develop the multiplier and considerations such as weight attributed to each comparable GRM as well as the basis for the final specific GRM selection or range of GRMs.

**Opinion of Market Rent.** The appraiser will need to select a specific market rent and a specific GRM to produce the value conclusions by the income approach. If the appraiser wishes to express range, they may choose to do so in the comment and reconciliation section immediately preceding this section and identify to the reader their logic for doing so.

**Indication of Value by the Income Approach.** The appraiser will express his or her opinion of value as either a single point value conclusion or as a range of values.

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<sup>15</sup> Appraisal Institute, *Appraising Residential Properties*, 376.

# Page Eight – Sales Comparison Approach

<b>Client:</b>				<b>Client File #:</b>			
<b>Subject Property:</b>				<b>Appraisal File #:</b>			
<b>SALES COMPARISON APPROACH</b>							
ITEM	SUBJECT	COMPARISON NO. 1		COMPARISON NO. 2		COMPARISON NO. 3	
Address							
Proximity to Subject							
Final List Price			\$		\$		\$
<b>Sale Price</b>			\$		\$		\$
Sale-To-List Price Ratio			%		%		%
<b>Closing Date</b>							
Days On Market							
Price/Gross Living Area							
Data Source/ Verification							
	<b>DESCRIPTION</b>	<b>DESCRIPTION</b>	<b>+ (-) \$ Adjustment</b>	<b>DESCRIPTION</b>	<b>+ (-) \$ Adjustment</b>	<b>DESCRIPTION</b>	<b>+ (-) \$ Adjustment</b>
Financing Type							
Concessions							
Contract Date							
Location							
Site Size							
Site Views/Appeal							
Design and Appeal							
Quality of Construction							
Age							
Condition							
Above Grade Bedrooms	Bedrooms	Bedrooms		Bedrooms		Bedrooms	
Above Grade Baths	Baths	Baths		Baths		Baths	
Gross Living Area	Sq. Ft.	Sq. Ft.		Sq. Ft.		Sq. Ft.	
Below Grade Area							
Below Grade Finish							
Other Living Area							
Functional Utility							
Heating/Cooling							
Car Storage							
Net Adj. (total)		□ + □ -	\$	□ + □ -	\$	□ + □ -	\$
Adjusted Sale Price	Gross/Net		\$		\$		\$
Comments and reconciliation of the sales comparison approach:							
<b>Indication of Value by Sales Comparison Approach</b>						<b>\$</b>	

## Sales Comparison Approach

The sales comparison approach is the most direct and reliable valuation approach in many appraisal situations, and is recognized as a typical and strong approach in the valuation of single-family properties.

In the sales comparison approach, the appraiser selects the most pertinent comparables from a detailed market analysis, analyzes and confirms all available data, presents the specific data, applies appropriate adjustments for differences, and develops an opinion of value. The grid on this appraisal form is presented in a manner to allow specific features of the comparable properties to be noted, analyzed, adjusted, and compared to the subject.

The task of the appraiser is to apply realistic market-based adjustments. If an item in the comparable property is superior to, or better than, the subject property, a negative adjustment is made, resulting in a lower adjusted sale price for the comparable. If an item of the comparable is inferior to, or not as good as, the subject property, a positive adjustment is made, thus increasing the adjusted price of the comparable. The adjusted prices derived are reconciled into an opinion of value for the subject property.

**Address.** The complete property street address and unit number (if applicable) for each comparable property should be entered. Also note the city, state, and zip code. The subject address should match the address on page one of the report. If there is no street address, record a known identifier that will not mislead the reader of the report.

**Proximity to Subject.** The appraiser should indicate the distance between the comparable and the subject, either in miles or blocks, and note the direction—e.g., *1.5 miles northeast* or *4-5 blocks south*.

**Final List Price.** The final list price is the basis for the sale-to-list price ratio. The final known list price of the comparable should be entered. If a comparable changed price during marketing, the appraiser should indicate the last and final asking price of the comparable at the time of sale and discuss the listing history of the comparable, as necessary, in the comments and reconciliation section. If the final list price of a property is not known (as may be the case in areas where MLS is not available or the property sold without the aid of a professional), it is recommended that the appraiser mark this with either an “unknown” or a “N/A.”

**Sale Price.** The appraiser should enter the confirmed sale price of the comparable. If the comparable is a pending sale, active listing, or a tax assessment value, this fact should be noted in this section of the grid. *Use of a market indication other than a confirmed sale price should also be fully disclosed and discussed in the comments and reconciliation section.*

**Sale-to-List Price Ratio.** The sale-to-list price ratio is a useful tool to gauge the market’s strength and condition. The ratio is calculated by dividing the sale price by the final list price (e.g., if the sale price is \$97,500 and the final list price is \$100,000, the sale-to-list price ratio is 97.5%). If the ratio is near 100%, this is considered indicative of a seller’s market and typically the supply of properties is limited; a lower ratio can be interpreted as a market that favors buyers and an ample supply. This

ratio, which indicates to the reader of the report how an expected sale price differs from typical market pricing, is a useful analytical tool.

**Closing Date.** This is the date the transaction was completed and ownership was transferred. The appraiser should enter the confirmed close of escrow, or recording, date. If the comparison is a pending sale or active listing, the appraiser should indicate the status here.

**Days on Market.** This indicates the total marketing period. If the comparable property was withdrawn or removed from the market, that period would not be included. If the price of the comparable was reduced or changed, this does not change the total marketing period. If the days on market of a property is not known (as may be the case in areas where MLS is not available or the property sold without the aid of a professional), it is recommended that the appraiser mark this with either an “unknown” or a “N/A.”

**Price/Gross Living Area.** The price per GLA<sup>16</sup> is calculated by dividing the sale price of the comparable by the total Gross Living Area. This number refers to the total property and includes the site and all improvements.

**Data Source/Verification.** The appraiser should indicate the source(s) of the information used to confirm both the property characteristics and the terms of the sale. Sources may include public records; recorded affidavits; stamp recordings; interviews with buyers, sellers, developers, or other parties with knowledge of the transaction; or any other reliable sources. It is the appraiser’s responsibility to verify and confirm all information.

**Financing Type.** The appraiser should enter the type of financing for each comparable such as conventional mortgage, cash, or FHA mortgage and consider any impact financing had on the pricing and value. If the financing is atypical, the appraiser will discuss the impact and adjust the sale price as necessary.

**Concessions.** The appraiser can record any known concessions associated with the comparable transactions and analyze the impact on price or terms of the sale. The notation in the subject column is typically “N/A,” not applicable, unless specified differently in the scope of the appraisal.

**Contract Date.** In the subject column, the effective date of the appraisal or the date of sale, if applicable, should be entered. For the comparable, only the specific date of the sale contract should be entered. This date is important for the analysis because it marks the true date of the sale and the date the property was removed from the active market. The time difference between the subject’s effective appraisal date and the comparable’s contract date is the basis for any adjustment for market change—i.e., the time adjustment.

**Location.** Location must be carefully considered when comparing similar properties in different locations. Traffic patterns, shopping, hospitals, schools, crime rates, and the quality and condition of nearby properties are factors that have an influence on property value. The appraiser should also consider gated communities, master-planned developments, zoning, true buyer profiles, and proximity

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<sup>16</sup> Previously defined in the Improvements Analysis section of this guidebook on page 21.

to amenities. Properties with virtually identical physical characteristics in different locations may demand dramatically different prices. An adjustment for location must be based on a thorough analysis of market evidence and may identify value differences that are not explained by other components of value.

**Site Size.** The appraiser should enter the site size using the appropriate units of comparison. Square footage or acreage notations are the most typical size indicators. Adjustments for size differences should be based on analysis of market evidence to determine the impact of size on value.

**Site Views/Appeal.** Site views are specific to the comparable property and may include (but are not limited to) descriptors such as:

- Residential
- Commercial
- Mountain
- Golf Course
- Lake

The appeal of this view can be reported as either a quality rating (e.g., average, fair, good) or as a superior or inferior comparison to the subject. The site views can be similar or have a positive or negative impact depending on the extent of the external influence. The appeal also includes factors such as topography, desirability, and inherent utility and may require additional comment by the appraiser in the narrative section provided in the comments and reconciliation section.

**Design and Appeal.** Architectural style or design is the character of a building's form and ornamentation. A wide variety of styles may be identified—e.g., ranch, traditional, colonial, contemporary, log home, doublewide. The descriptive term used in this section should be the term that is common of the market where the dwelling is located. The appeal of the design can be reported either as a quality rating (e.g., average, fair, good) or as a superior or inferior comparison to the subject.

One important factor affecting the desirability or appeal of a particular design or style of property is its conformity or compatibility with the standards of the market. (For a better understanding of architectural compatibility and types of incompatibility, trends in architectural styles, and types of residential improvements, reference *Appraising Residential Properties*, 3<sup>rd</sup> edition, pages 125-136.)<sup>17</sup>

**Quality of Construction.** The quality of construction, like the location, can be a difficult element to adjust for, and quality must not be confused with features and upgrades. In the context of building description, quality refers to the character of construction and the materials used in the original work. When well-chosen materials are applied in a suitable manner with sound construction techniques and good workmanship, quality is produced. The “quality” refers to the *construction* details, such as a block versus 2 x 4 wood exterior or the type of materials used for finish such as floors, windows, and trim. The appraiser should record a descriptor for the subject and each comparable such as “good,” or “custom,” and consider the need for adjustment.

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<sup>17</sup> Appraisal Institute, *Appraising Residential Properties*, 3<sup>rd</sup> ed. (Chicago: Appraisal Institute, 1999).

For a better understanding of quality versus condition, or how to adequately describe and rate the improvements, the appraiser may reference *Appraising Residential Properties*, 3<sup>rd</sup> edition, pages 119-120, or a published cost guide such as Marshall and Swift's *Residential Cost Handbook* that provides basic descriptions for a variety of quality ratings.

**Age/Condition.** The *actual age*<sup>18</sup> of the subject and comparable properties should be entered. If the actual age and effective age are substantially different, and market reactions are based upon effective age, then it is suggested that the appraiser reports both (e.g., "50A/15E") then analyzes and discusses the impact in the comments and reconciliation section.

**Condition.** While quality is considered a character trait, condition is more aptly defined as a state of being. A condition rating is generally based upon the upkeep and maintenance associated with the property. Typical descriptors include (but are not limited to):

- Fair
- Average
- Good
- Excellent

These descriptors can be noted as a single rating or combined such as "Fair-Average" or reported as a qualitative rating such as "below average" or "average plus." The appraiser should make a good effort to explain any differences in quality ratings between the subject and the comparables, as well as provide support for any adjustments considered.

**Above Grade Bedrooms/Baths.** The appraiser should adjust the comparable to the subject for the influence of the number of bedrooms and baths in the marketplace.

**Gross Living Area/Below Grade Living Area/Other Living Area.**<sup>19</sup> The appraiser should report the amount of gross living area, living area below grade, and other living area and adjust as necessary for differences based upon market reaction. The appraiser may choose to report below grade finish either as a percentage or expressed in square feet. Additionally, it is recommended that the quality of the finish also be identified (e.g., "1000SF/Good"). This rating and reporting will enable the client and readers of the report to more readily identify and understand differences in basement finish between the subject and comparables and any adjustments that may be necessary as a result. This process is particularly useful when the subject and a comparable may contain the same amount of basement finish but offer different quality.

**Functional Utility.** Functional utility is "the ability of a property or building to be useful and to perform the function for which it is intended according to current market tastes and standards; the efficiency of a building's use in terms of architectural style, design and layout, traffic patterns, and the size and

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<sup>18</sup> Previously defined in the Improvements Analysis section of this guidebook on page 18.

<sup>19</sup> Previously defined in the Improvements Analysis section of this guidebook on pages 21-22.

type of rooms.”<sup>20</sup> Functional inutility may be curable or incurable as determined by professional analysis.

The appraiser should enter a descriptor, such as “average,” for the subject and each comparable then analyze and adjust for differences.

**Heating/Cooling and Car Storage.** The appraiser may report the pertinent data and adjust as necessary for market reaction to the specific elements. The reporting of car storage should be reflective of the number of parking spaces as well as the type (garage, carport, off street).

**Blank Lines.** The appraiser should use the remaining lines as necessary for additional comparison elements that have an influence on value. Examples may include outdoor amenities such as decks, pools, patios; or examples may include interior amenities such as fireplaces or security systems.

**Net Adjustment and Indicated Value.** The sum of the adjustments to each comparable result in the net adjustment, which is applied to the comparable to derive an adjusted sale price. The adjusted sale prices of the comparable properties are reconciled into an opinion of value for the subject property.

**Comments and reconciliation of the sales comparison approach.** The appraiser should provide a discussion of the sales selected for comparison. The basis for and source of each adjustment should be explained. The appraiser also needs to comment on the listing/sales history of the subject, as required by USPAP, and the comparables as appropriate for the scope of work and intended user. The appraiser may choose to place more emphasis on one of the comparable sales and provide support for a single value selection within the range of adjusted sale prices. The reasoning behind the procedure employed to develop the final opinion should be explained.

**Note:** All adjustments for differences should be based upon market evidence.

**Indication of Value by Sales Comparison Approach.** The appraiser will express his or her opinion of value as either a single point conclusion or as a range of values.

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<sup>20</sup> Appraisal Institute, *Appraising Residential Properties*, 119.

# Page Nine – Statement of Assumptions and Limiting Conditions

<b>Client:</b>		<b>Client File #:</b>	
<b>Subject Property:</b>		<b>Appraisal File #:</b>	

## STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS

This appraisal is subject to the following assumptions and limiting conditions:

- This report is prepared using forms developed and copyrighted by the Appraisal Institute. However, the content, analyses, and opinions set forth in this report are the sole product of the appraiser. The Appraisal Institute is not liable for any of the content, analyses, or opinions set forth herein.
- No responsibility is assumed for matters legal in character or nature. No opinion is rendered as to title, which is assumed to be good and marketable. All existing liens, encumbrances, and assessments have been disregarded, unless otherwise noted, and the property is appraised as though free and clear, having responsible ownership and competent management.
- I have examined the property described herein exclusively for the purposes of identification and description of the real property. The objective of our data collection is to develop an opinion of the highest and best use of the subject property and make meaningful comparisons in the valuation of the property. The appraiser's observations and reporting of the subject improvements are for the appraisal process and valuation purposes only and should not be considered as a warranty of any component of the property. This appraisal assumes (unless otherwise specifically stated) that the subject is structurally sound and all components are in working condition.
- I will not be required to give testimony or appear in court because of having made an appraisal of the property in question, unless specific arrangements to do so have been made in advance, or as otherwise required by law.
- I have noted in this appraisal report any significant adverse conditions (such as needed repairs, depreciation, the presence of hazardous wastes, toxic substances, etc.) discovered during the data collection process in performing the appraisal. Unless otherwise stated in this appraisal report, I have no knowledge of any hidden or unapparent physical deficiencies or adverse conditions of the property (such as, but not limited to, needed repairs, deterioration, the presence of hazardous wastes, toxic substances, adverse environmental conditions, etc.) that would make the property less valuable, and have assumed that there are no such conditions and make no guarantees or warranties, express or implied. I will not be responsible for any such conditions that do exist or for any engineering or testing that might be required to discover whether such conditions exist. Because I am not an expert in the field of environmental hazards, this appraisal report must not be considered as an environmental assessment of the property. I obtained the information, estimates, and opinions furnished by other parties and expressed in this appraisal report from reliable public and/or private sources that I believe to be true and correct.
- I will not disclose the contents of this appraisal report except as provided for in the Uniform Standards of Professional Appraisal Practice, and/or applicable federal, state or local laws.
- The Client is the party or parties who engage an appraiser (by employment or contract) in a specific assignment. A party receiving a copy of this report from the client does not, as a consequence, become a party to the appraiser-client relationship. Any person who receives a copy of this appraisal report as a consequence of disclosure requirements that apply to an appraiser's client, does not become an intended user of this report unless the client specifically identified them at the time of the assignment. The appraiser's written consent and approval must be obtained before this appraisal report can be conveyed by anyone to the public through advertising, public relations, news, sales, or other media.
- A true and complete copy of this report contains \_\_\_\_ pages including exhibits which are considered an integral part of the report. The appraisal report may not be properly understood without access to the entire report.
- If this valuation conclusion is subject to satisfactory completion, repairs, or alterations, it is assumed that the improvements will be completed competently and without significant deviation.

## VALUE DEFINITION

Market Value Definition (below)

Alternate Value Definition (attached)

MARKET VALUE is defined as the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. buyer and seller are typically motivated;
2. both parties are well informed or well advised and acting in what they consider their own best interests;
3. a reasonable time is allowed for exposure in the open market;
4. payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
5. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Source: *Appraisal Institute Dictionary of Real Estate Appraisal*

## Statement of Assumptions and Limiting Conditions

The assumptions and limiting conditions provided in this AI Reports™ form are not meant to be exhaustive, but rather demonstrative of common assumptions and limiting conditions in the industry. If the appraiser wishes to create his or her own statement of assumptions and limiting conditions, they are free to do so.

**Note:** The appraiser should be aware that if he or she chooses to create his or her own statement of assumptions and limiting conditions, he or she will also need to provide separate documentation for the source of the value defined if they chose market value as this is not offered as a separate page.

## Value Definition

USPAP requires a definition of value to be cited. If the appraiser chooses to utilize the Statement of Assumption and Limiting Conditions, then they may also choose to acknowledge and accept the definition and source of Market Value provided. This can be done by selecting:

**Market Value Definition (below)**

or

**Alternate Value Definition (attached)**

If the appraiser chooses the latter because he or she either wants to use a different source for Market Value or he or she is offering a different value conclusion, he or she will be responsible for attaching a definition of value consistent with the assignment parameters set forth at the top of page two of the AI Reports™ Form AI-100.01.

# Page Ten – Appraiser’s Certification and Additional Certification

<b>Client:</b>		<b>Client File #:</b>	
<b>Subject Property:</b>		<b>Appraisal File #:</b>	

## APPRAISER’S CERTIFICATION

I certify that, to the best of my knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analysis, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analysis, opinions, and conclusions.
- I have no present (unless specified below) or prospective interest in the property that is the subject of this report, and I have no (unless specified below) personal interest with respect to the parties involved.
- I have no bias with respect to any property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon the developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the use of this appraisal.
- my compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- My analysis, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- Individuals who have provided significant real property appraisal assistance are named below. The specific tasks performed by those named are outlined in the Scope of Work section of this report.

None     Name(s)

As previously identified in the scope of work section of this report, the signer(s) of this report certify to the inspection of the property that is the subject of this report as:

**Appraiser**     None     Interior     Exterior

**Co-Appraiser**     None     Interior     Exterior

## ADDITIONAL CERTIFICATION FOR APPRAISAL INSTITUTE MEMBERS

### Appraisal Institute Member Certify:

- The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics & Standards of Professional Appraisal Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practice.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

### Designated Appraisal Institute Member Certify:

- As of the date of this report, I  have /  have not completed the continuing education program of the Appraisal Institute.

### Designated Appraisal Institute Member Certify:

- As of the date of this report, I  have /  have not completed the continuing education program of the Appraisal Institute.

### APPRAISER:

Signature \_\_\_\_\_

Name \_\_\_\_\_ Report Date \_\_\_\_\_

State Certification # \_\_\_\_\_ ST \_\_\_\_\_

or License # \_\_\_\_\_ ST \_\_\_\_\_

Expiration Date \_\_\_\_\_

### CO-APPRAISER:

Signature \_\_\_\_\_

Name \_\_\_\_\_ Report Date \_\_\_\_\_

State Certification # \_\_\_\_\_ ST \_\_\_\_\_

or License # \_\_\_\_\_ ST \_\_\_\_\_

Expiration Date \_\_\_\_\_

## **Appraiser's Certification**

The minimum certification required in any appraisal report is found in Standards Rule 2-3 of the *Uniform Standards of Professional Appraisal Practice*. This certification is included in the Appraisal Institute's residential report form.

The appraiser will need to note any individuals who have provided significant real property appraisal assistance, which has previously been discussed in the Scope of Work section of these guidelines on page 10.

## **Additional Certification For Appraisal Institute Members**

Additional certification for Appraisal Institute members is required by the Appraisal Institute's Supplemental Standards. That certification is also included in this report.

Depending on the circumstances, an appraiser may find it necessary to include additional certifications. Any additional certifications, particularly those that might serve to limit or place restrictions on the final opinion of value, need to be agreed upon by the appraiser and the client at the time of engagement. Like other assumptions and limiting conditions, the appraiser may want to include additional certifications in the engagement agreement.