APPRAISAL TODAY

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Adjustments Part 1 - Are you making too many adjustments?

Fannie's Collateral Underwriter has caused a huge change in how appraisers support adjustments. Before CU, many of us tried to use matched paired sales when we could, used adjustments we had been using for many years, or just used "our professional opinions".

Today, there is a lot of confusion over what to do. Many methods are available, but which works best for you? What about rural areas, or unusual properties with limited comps available?

In this article, I discuss the overall issues with adjustments. Next month I will go over the various methods available. There are many, many methods.

The Primary Rule:

NO ADJUSTMENT SUPPORT METHOD WILL WORK FOR ALL ADJUSTMENTS.

Appraisers are making too many adjustments

Not so very long ago, before appraisers were expected to provide "support" for adjustments, most appraisers made adjustments on almost every line of the adjustment grid. I made lots of adjustments as well.

Too many adjustments are being made for items that don't affect value much and are hard to support.

Now, many savvy appraisers are making very few adjustments, particularly "below" GLA (and finished basement, if a significant effect on value in the market), such as fireplaces and porches.

Appraisers are not making adjustments for items such as porches and deck. Many are putting 0 in the grid to indicate that no adjustment is needed. Some appraisers only make adjustments for market conditions and GLA.

Other differences, such as condition and location, are considered in the comparable reconciliation. For example, if the subject has superior condition as compared to the comps, a value on the higher end of the range of adjusted comps is selected.

What about all the blank spaces or zeroes in the adjustment grid if you don't make many adjustments?

For UAD it is best to put in zeroes.

Include a discussion of "Non-adjusted Qualitative Factors" and why they were not adjusted. Thanks to Dave Towne for this suggestion.

What adjustment support methods are appraisers using?

The results of an Appraisalport poll done in April, 2015.

Estimating from market data	36%
Paired data analysis	32%
Multiple regression using Excel	3%
Using a regression modeling program supplied by a vendor	7%
I'm not!	19%

Of course, the most common reason, "my experience", was not included in the survey. Maybe it was included in in "estimating from market data". I'm also not sure where "adjustments I got many years ago from my supervisor" fits in the survey.

The percent of appraisers using various methods may have increased since then.

I recently attended an appraisal seminar with very experienced appraisers and about 20 attendees. Only one person raised his hand when the moderator asked if anyone was using multiple regression software.

When speaking with appraisers, I get a very wide range of answers, such as my experience, matched paired sales, trend lines, median values, etc. Most had one, or a few, methods that they like and regularly use.

What are the most frequent adjustments that appraisers make? Corelogic analysis

Corelogic used a national sample of approximately 1.3 million appraisal reports between 2012 and 2015. The report was published October 15, 2015, long after CU took off.

The actual dollar amounts don't mean much as they are aggregated from all over the country. But, the frequency of adjustments and their relative amounts are worth checking out.

So what is being adjusted and how often? CoreLogic analysis reveals that some type of adjustment was made on 99.8 percent of appraisal reports reviewed. The graph below shows the various features adjusted on appraisal reports in relation to how often that adjustment was made, as well as the financial impact, or value influence, it had on the appraisal report.

“Differences in Living Area was the most adjusted feature at 96.4 percent. Other features that were adjusted on 50 percent or more of appraisal reports were Room, Car Storage, Porch and Deck, Overall Condition and Site Area“.

“It is significant to point out that the frequency of an adjustment is indirectly correlated to the financial impact, as four of the top five most adjusted features resulted in relatively low average dollar adjustmentsv.

“For example, room adjustments were very common at 70.4 percent, but had minimal value influence, recording an appraisal adjustment of only $2,246 on average. Conversely, a Quality Rating adjustment had the highest value influence, with an average adjustment of $14,748, but accounted for only 18.7 percent of all adjustments.“.

“Although the adjustment features that result in the highest value adjustment levels (Condition, Quality and Location) are harder to quantify, appraisers are professionals who can do this and adjust their reports appropriately to reflect the most precise appraisal for the home.“

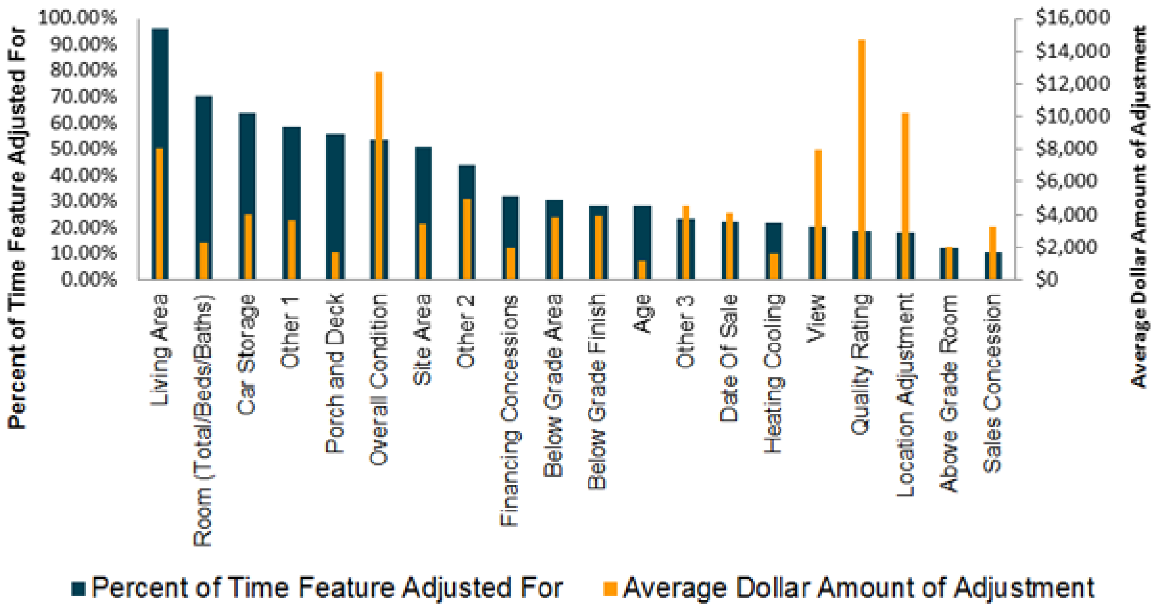
Do differences in adjustments affect the final value?

For many years, I did relocation appraisals where there are two different appraisers appraising the same home. The value was anticipated sales price, a value 60-90 days in the future.

The first two appraisers were often within a 3-4% range, so a third appraiser was not required. But, the adjustments were very different. See the Corelogic analysis below.

Link to article and graph below: www.mortgagenewsdaily.com/10192015_appraisals.asp

Figure 1: Features Adjusted on Appraisal Reports - Nationwide



Source: CoreLogic October 2015

Data: Sample of more than 1.3 million appraisal reports from 2012 through 2015.
Note: Features that were adjusted for on less than 10 percent of appraisal reports are not shown on the chart. The fields *Other 1*, *Other 2*, and *Other 3* are free-form fields that the appraiser can use for any adjustment.

Corelogic analysis of wide variation of adjustments on relocation appraisals

In October, 2014 Corelogic published their results on comparing relocation appraisals: Channeling Deep Blue Versus Garry Kasparov in Home Valuations. Below are a few examples. This was done prior to implantation of CU, but there was a lot of information on what was coming, including adjustments.

I wonder how CU compares appraisers' differing adjustments. Who is right? How does CU determine adjustments, when appraisers have difficulty doing it, even if there is some support?

"For property 1, Appraiser A made an $18,700 negative adjustment for "site area" while Appraiser B made a $33,020 negative adjustment for this same attribute. Appraiser A made no adjustment for "quality of construction" while Appraiser B made a $15,000 negative adjustment. After making all adjustments, the adjusted sales price is $831,250 for Appraiser A ,while it is $796,010 for Appraiser B."

"For property 2, Appraiser C made a $11,000 adjustment for "age" while Appraiser D made no adjustment for age. For "condition," Appraiser C made no adjustment while Appraiser D made a $20,000 adjustment."

Their conclusion:

"It's time to standardize how real estate appraisers make their adjustments."

"It might be time to reengineer the process appraisers use to make adjustments to comparable homes. The current approach does not appear to be defensible."

"It's time that we reengineer the process so that appraisers can focus on the things that may benefit from the human element, such as defining the neighborhood and selecting comparables. But for the pieces of the puzzle that need to be standardized, like adjustments to comparables, we should be harnessing the power of our machines. Too much is at stake to maintain the status quo."

"Appraisers would benefit by being allowed to focus on things they do well; loan applicants would benefit from a less costly, streamlined process; and lenders would benefit from valuations that were standardized and more reliable."

To read the full article, Google the title. Interesting graphs.

See also this Most Excellent article: “Support vs. Proof for Adjustments By Bob Keith, MNAA, IFA, on Page 14 of this newsletter, written by Bob Keith, former Executive Director of the Oregon Appraiser Certification and Licensure Board.

What about making no adjustments, except for market conditions?

In my very volatile market, negative or positive market conditions adjustment are often needed. Supporting them is very easy.

For about a year, I have been making dollar adjustments first, then changing them to plus and minus signs.

Last week, for the first time, I did not make any dollar adjustments, except for market conditions. One of the properties was one of the oldest homes in my city, built in 1850. It started as a small home and had at least two additions over time, needed work, had a very large lot, lacked a garage, etc. I did not make any more adjustments, including GLA or bedroom. The comp values were in a fairly tight range. I reconciled to the higher value as the subject had a very large lot (not a major factor in this market) and a full basement.

The other property was in a small tract with available similar sales. My subject had not been fixed up for sale. One of the three similar comps had not been fixed up. I reconciled to the lower part of the range, the comp that needed cosmetic fixup.

Qualitative vs quantitative adjustments - when you can't support a valuable feature adjustment

Ever know that there is a feature that buyers will pay more for, in the market, but can't support a dollar adjustment?

Use a reconciliation of comparables to explain, upscale landscaping for example. For example, your range of adjusted comps is $300,000 to $350,000, without considering the landscaping. Explain how your subject is superior to Comp 1 at $300,000 because of the superior landscaping. So, you select a value at the upper end of the range.

What adjustments is CU looking at?

Fannie started with GLA, which is the easiest adjustment to make. It is the most reliable adjustment that multiple regression analysis can make. Fannie determined that appraisers were making GLA adjustments that were too low.

Of course, this was often to keep within the infamous 15/25% adjustment "limits" that Fannie never required, but many lenders did. That limit has been removed. I used two multiple regression software programs and doubled my GLA adjustments.

With CU 2.0 they added warnings that the GLA is larger or smaller than the model and "The appraiser's wide range of adjusted values indicates a potentially inadequate adjustment."

Collateral Underwriter 3.0, effective 9/25/15, looks at the direction of adjustments for GLA, Quality, Condition, View, and Location. It also looked at whether a time adjustment was made when it "may be warranted".

Collateral Underwriter 3.1, effective 12/12/15, compares appraisal adjustments in the appraisal with what adjustments the appraiser used in previous appraisals and what other appraisers used, for the following factors: waterfront location and water view.

Fannie is moving slowly with looking at adjustments.

What adjustment support are state boards and reviewers looking for?

CU is moving very gradually, but state boards and reviewers want to see support for all, or most, adjustments. State boards are most important, as they can sanction you or take away your license.

You probably won't lose your license for using unsupported adjustments, but appraisal boards are looking for support. If you have other problems, it will be added to their list of problems with your appraisal report. Some state regulators say that many appraisers are not doing much at all.

I am hearing about a few reviewers and underwriters asking to see adjustment support. Most just complain that the appraisal reports don't have support or it is not explained in the report.

About 4 years ago I did a refi on my duplex - built in 1957 in a market where most 2-4 units are converted Victorians. The appraiser said that he used "matched paired sales", which don't exist. Many appraisers are probably still doing this.

What is important - what buyers think

I go on the local real estate agent open house tour almost every week. I am frequently asked about the value of a feature such as a tandem bedroom. I always tell them that I look at the local market. Few buyers in my area would want to go through one bedroom to get to another. There is very limited privacy in the front bedroom. However, "shotgun" homes are common in New Orleans - no hallways. All the bedrooms are tandem and is acceptable to buyers.

Do buyers look at two similar homes and say "This one has a small covered porch. I will pay $3,000 more"? No. Do they say "This house needs work. I will pay the same as another very similar house that does not need work." They will pay less. They likely will consider how much it will cost to fix it up.

Keep a file with your adjustments which can be used over time

Over the years, in my market, I get good support for certain adjustments, such as waterfront location or lack of off street parking. I have used these for many years. What works best is a percent of value as our prices go up and down. For example, using an adjustment of 10% for a lack of off street parking for a detached home (common in my market). When the price of the home is $400,000, the adjustment is $40,000. When the price is $700,000, the adjustment is $70,000.

I periodically check the adjustment, using matched paired sales.

Of course, when the market is very strong with a very low inventory, adjustments for negative factors is less and positive is higher. In a weak market, buyers are more picky and will demand a lower price adjustment for negative factors.

Go back in time

For unknown reasons, many appraisers are afraid to go back in time. However, market condition adjustments are the easiest adjustments to make.

I recently did two appraisals where I went back in time 10 years to get percent adjustments for differences in bedrooms within a small condo project and in relatively small subdivision. There were no recent comps or data to show me the adjustments as there were very few similar homes. I used several other methods, but this was the most reliable.

The best adjustment sources of information

See the article in this newsletter about two excellent books. They should be in your appraisal library.

I have published many articles on adjustments, and adjustment software in Appraisal Today. Next month I will have a compilation of them available on the paid subscriber web page.

Richard Hagar's adjustment webinars are excellent. Search for workingre recorded webinars on adjustments.

Most of the classes and webinars I have seen are about using Excel or multiple regression software. I will discuss these next month.

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Book Review - Identifying Residential Architectural Styles by Marc Nadeau, SRA

In my 40 years of appraising I have seen many books on architectural styles. In contrast with the other books, this 192-page book was written by a practicing appraiser who is an expert on architectural styles. It includes valuation tips and brief valuation case studies.

Nadeau discusses the history of when the homes were built, connection to art at that time, famous architects of that time, plus lots of valuation tips. I have never seen this in any other architectural style books. He includes both interior and exterior features. Many famous architects in the periods are also discussed. Floor plans are included and analyzed.

Take a brief test to see how much you know - see if you need to buy this book

The Appraisal Institute has a 10 question test on their web site: "Test your architectural knowledge." I got 7 out of 10 right, but guessed on a few. I even missed a Victorian question. I appraise Victorians all the time. Good that I am reading and reviewing the book.

Some are the questions are fun, such as architectural styles in Hitchcock movies.

Go to http://www.appraisalinstitute.org/identifying-architectural-styles/ to take the test.

The author's writing style

Since I started this publication in 1992, I have reviewed many appraisal books. Often they were "academic" with stilted language, long sentences and were overall sort of boring. It was hard to stay awake reading them.

This book is not like that. For example, I am not familiar with Northeast homes built in the 1600s. This book took me back in time and explained why homes were constructed in using certain materials and methods that were available at that time. Illustrations included floor plans of these old homes, also influenced by building materials.

In later periods of time, the author references the influences of artists such as Picasso.

Here is an example of his writing, from Chapter 1, Why Architecture?, Form and Function: "As technology advanced over time, the styles and structures of dwellings changed. Homes built in the 1600s and 1700s employed very simple features. Windows generally consisted of many very small, multipane pieces of glass, simply because the ability to produce large panes of glass had yet to be perfected. Interior wood-work often consisted of hand-planed wooden floors, walls, and stairs."

"Each new advancement in building technique and materials have brought a greater freedom in terms of design and function. Many of the techniques and materials that were invented and employed during the eighteenth, nineteenth, and twentieth centuries are still used today in building homes, while others did not endure the test of time."

Building elements

Typically these sections in architectural style books go over the elements and materials of building construction. This book goes beyond that by incorporating historical references, drawings, and photographs. For example, photographs of pine doors from an eighteenth century home.

What is discussed in the book?

• The historical evolution of architecture in America from 1600 until the present
• Significant architectural design elements and the architects who introduced them
• Residential building elements and materials, including framing and foundations, exterior siding and insulation, drainage and heating systems, flooring, windows, and roofing
• In addition to dozens of photos and drawings of important building elements, the book includes a pictorial overview of residential architectural styles and two glossaries.
• Discussion of the major American residential architectural styles, from the Postmedieval English and early Colonial, to Eclectic and Modern
• Photos and illustrations throughout the book
• A final chapter presents case studies of nine different architecturally significant homes that were sold in various locations across the United States.
• Glossary

How often are architectural style adjustments made?

They are not done very often in appraisal reports. But, does it make a difference? With most homes in an area post-1950 subdivision homes there may not be very many different styles.

It is not difficult to see when a style makes a difference. Read the local MLS listings and sales. Speak with agents.

If you have different design/styles in your appraisal, make a comment that it does not make any difference in value in this market so there were no adjustments made.

Sometimes, it makes a difference, but all the comps have the same architectural design. For example, when appraising a Victorian in my market, there are a lot of Victorian sales and all my comps are Victorian.

What is important for an architectural style name?

Whatever the local market calls it. Check the MLS and local agents. For example, I have never heard the term "rambler" used in Northern California.

What about architect adjustments?

I used to do a lot of appraisals in Berkeley CA, where homes designed by certain architects had a value premium. However, homes designed by the same architect in my city, 15 miles distant, did not have a premium.

Once again, location, location, location.

What about homes built since 1950?

The chapter on Modernist Styles (1930 to 1965) includes a few styles - Art Deco, International, and Midcentury Modern. I spoke with the author about how to handle styles in newer homes. He said to look at both exterior and interior features of newer homes built using some features of old classic homes. I also asked why the most recent style in his book was from 1965. He said there have been no widely accepted architectural styles since then.

In my small city, there are many homes built prior to 1940, particularly homes built before 1915, mostly Victorian style homes. Many of the styles are in this book. But, there are several small infill new home developments near my house, plus other subdivisions, and homes built on infill lots, built since 1970. I have been using this book to select architectural styles for these homes.

Many appraisers primarily work on subdivisions built since 1950. But, most of us appraise homes built prior to 1950, if only occasionally. There have not been many new styles since 1960. But, newer homes use design/styles from older homes. This can really help to select a style on on newer homes.

How this book helps appraisers

Appraisers obtain information to help them identify architectural styles of homes they may encounter and determine how various construction elements can affect value.

"American homes can reflect important moments in history as well as the artistry of their designers. Architecture can create inspiration and - most importantly for appraisers - influence value," Appraisal Institute President Scott Robinson, MAI, SRA, AI-GRS, wrote in the book's foreword. "'Identifying Residential Architectural Styles' gives appraisers necessary tools to identify and classify different types of residential properties and provides background on the art of building to help them appreciate the beauty and function of the structures they encounter every day."

Reporting the design or style of a home is an essential part of residential appraisal and practitioners can use this book to learn about:

• The historical evolution of architecture in America from 1600 until the present
• Significant architectural design elements and the architects who introduced them
• Residential building elements and materials, including framing and foundations, exterior siding and insulation, drainage and heating systems, flooring, windows, and roofing

Summary of what is in the book

• General survey of America's most significant architects
• Summary of building elements and materials, from home - foundations to roofs;

UAD and design/style

There are no specific terms to be used. The only instruction is: "Design style should be an architectural design such as 'Colonial', 'Rambler' etc. Descriptors such as '2 stories' or 'conventional' are not architectural styles."

I don't see this changing as architectural styles vary widely around the country. Many styles are not in this book, but are important in local markets. For example, "rambler" is not used in my area, but is used elsewhere and is referenced in UAD instructions.

Don't let UAD and CU determine how you do appraisals. As we all know, not all features are UAD coded, but are very important to value to buyers.

Number of stories can affect valuation, but UAD does not allow this as an architectural style

Although UAD instructions say that "2 story" is a descriptor, not a style, the number of stories is a critical valuation factor in some markets.

As the population is aging, many of us, including myself, prefer one story homes. It is a critical factor in some segments of my market. Since UAD does not allow the use of "2 story" in design/style, it can be adjusted in the functional line. Another option is to use GLA if one story homes are smaller than two story homes. But, I think that does not let the reader know what is happening in the market.

Other markets prefer 2 story or split level homes as they are larger or more prestigious.

What about custom homes?

As discussed above, there are very few architectural styles in the 20th century and none on the 21st century. Home architects look to the past to see what to do today.

In contrast, there have been more changes in commercial buildings, typically started by famous architects. Also, commercial styles change and buildings are demolished to construct newer commercial building styles.

Why is architectural style important for appraisers?

From the book: "As appraisers, we are often taught to identify homes in the most simplistic way possible. For example, one story homes are considered to be "ranches", while two-story structures considered to be "colonials". While categorizing buildings in this way may be accurate in a simplistic way, it is not reflective of the mind-set of the purchaser who longs for a Midcentury Modern house or an early eighteenth century salt box."

I regularly see discussions on an architectural style for a home on the Facebook appraiser groups. Some of them are strange, such as homes built since 1940 with strange additions or mobile/stick built combo homes. My favorite style is "ugly" which is not in this book.

I have worked the same geographic area for a long time and tend to be a bit lax on identifying styles, unless it affects value. But, it is a very important feature in homes. Since the owner usually sees the appraisal, it is important to them that it be identified properly. It also shows the reader that you have expertise in styles.

But, I also see discussions of pre-1930 homes that can go into detail about which style it fits.

Sometimes style makes a significant difference in value. Residential appraisers are experts in valuing homes. If you don't know much about architectural styles, you won't know when it makes a difference in value.

Exterior vs. interior architectural features in old vs. newer "replica" homes

We often forget about interior features of old homes as compared with newer homes with the same exterior architectural design.

In the Oakland Hills firestorm of 1990, many pre-1930 classic homes were destroyed and only the fireplaces remained. Many owners had purchase fire insurance that provided reproduction, not replacement, of the home. They lost a lot of money. Replacing interior classic features were very expensive and sometimes could not be done as the materials were not available or there were few, if any, people who knew how to build them.

Fortunately, this book discusses interior features of these classic homes. When you are appraising one of them, there are specific features to look for. When appraising a "replica" they will not be there.

Also, floor plan preferences have changed over time. Homes with two bedrooms and the only bath is between the two bedrooms is a common feature in some classic interior designs. Lack of a full bath on the first floor is another common feature. Lots of walls and large dining rooms is less popular today.

What about local architectural style books?

There are several for my small city. One for commercial buildings and another for homes. The local Historical Socieity maintains a registry of historic homes. When I used to do a lot of CE classes, a local expert taught a class based on his book, "A Living Legacy: Architecture of the East Bay".

Are there any local books in your area?

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Should you buy this book?

If you are interested in going beyond the information in architectural style books and learn more about valuation and the history of the styles in a well written book with many illustrations, buy this book.

The price is $50 or $40 (AI members). To order, Google the name and include Appraisal Institute at the end.

About the author

This is only architectural style book written by a practicing appraiser with 30 years of appraisal experience plus construction experience. The author has restored, owned, renovated, or designed nearly 50 structures of various architectural buildings, spanning over 30 years.

He has lectured and written articles on architectural styles and history and has worked with the National Trust for Historic Preservation and other groups.

Nadeau has appraised hundreds of historic and architecturally significant homes over the years.

He lives in Connecticut near many historic homes.

Two good, practical books for residential appraisers with very good tips on adjustments - buy these books!

I have been writing reviews for Appraisal Institute books for many years. Unfortunately, very few are relevant for residential appraisers. Or, they have very little relevant material for residential appraisers.

Over the past 30 years, I have only seen two books that are relevant to practicing residential appraisers. There are several reasons for this. The primary one is that few residential appraisers are interested in writing books. The books that have been written are by appraisers who do both commercial and residential work, such as the two reviewed below. Mark Ratterman has done commercial work, but now focuses on residential. If you are a commercial appraiser specializing in a segment such as hotels, medical facilities, or self storage, authoring a book can be a big plus for your business.

Valuation by Comparison: Residential Analysis and Logic
Mark Rattermann, MAI, SRA, 115 pages, 2007

Appraisers regularly call me for advice on appraising properties. What do I always say? What's the market for the property? What do the buyers want? When I ask other appraisers for advice, I always ask about the market. Comps tell me the past. I want to get a "feel" for today.

Now, finally, there is a book focusing on this basic appraisal question. The book has many situations that appraisers face to illustrate the issues, such as supporting increases/declines in value, adjusting for 3 bedrooms vs. 4 bedrooms, etc., seller/builder concessions, using pending sales, buyers paying over market prices, etc.

Have you ever had any of these problems?

• Changing markets with few recent closed sales, but recent pending sales.
• First resale (or first refi) in a new project.
• Sales where the buyer and/or seller have unusual motivations, such as wanting to be close to a relative or a forced sale because of a divorce.
• Small towns with very dissimilar homes and few listings or sales.
• Markets where many sales are private.
• Builder sales.

These are some of the many issues discussed in the first few chapters of the book.

Appraisers analyze human behavior

Per the book, "Appraisers study what human beings have done in the past so they can predict what they will do again in similar circumstances. For many years, appraisers have studied past human behavior to predict future human behavior much in the same way that a psychologist does. In appraising, just as in psychological studies, an error in either measuring or interpreting the data can lead to false conclusions."

Is this book for new appraisers or old timers?

The book is written for all appraisers, new and old. I have been appraising for 30 years and learned new ways of approaching problems from the book. The book is understandable for all appraisers. Like many books and educational offerings, newer appraisers benefit the most. I could have really used this book when I started appraising.

What's in the book?

The chapters are:

• The psychology of the valuation process - what buyers and sellers are thinking
• Market consistency - analyzing consistency and handling inconsistent markets
• Design of the analysis - supply/demand, limited data, what to use in your search parameters (zip code, year built, etc.)
• Analysis of other market evidence of value - listings, subject history, pendings, expireds.
• Sales Comparison grid analysis - psychology behind the adjustment grid, selecting comps, etc.
• Supporting quantitative adjustments - how to extract and support adjustments.
• Conclusion

What about lender appraisals?

This book is very applicable to lender appraisals, with practical tips on handling problems.

What about 2-4 unit properties?

Many appraisal books lack practical ideas on appraising 2-4 unit properties. This book has plenty of good advice.

Is there a lot of statistics and math in the book?

There are other books focusing on sophisticated statistical analysis. This book focuses on the use of uncomplicated statistical methods to analyze appraisal data to support adjustments.

Should you buy this book?

If you do residential appraising, this is a "must have" book. There are also very useful ideas for commercial appraisers, who tend to focus on data rather than behavior.

Book Review of Appraising the Tough Ones : Creative Ways to Value Complex Residential Properties by Frank E. Harrison

Paperback (May 1996) Appraisal Institute (www.appraisalinstitute.org)

A few weeks ago, a long-time residential appraiser I know contacted me about doing an appraisal on a partial interest of a home. I have done many of them. They are easy to do and you can get a good fee for doing them. I told him to get out his copy of “Appraising the Tough Ones”, which has a chapter on it. He completed the appraisal and collected a hefty fee.

Have you ever had to appraise a home with "no comps"? The one home with a huge addition in a tract of small homes? A home modified for handicap access? Or, a home with asbestos siding or an underground heating oil tank?

In today's changing residential appraisal business, taking non-typical, more difficult assignments is critical to your future. Have you ever turned down assignments such as a retrospective value (going back in time) or a life estate? They are actually fairly easy to do.

Practical books about residential real property appraising are scarce. Most are just updates of books originally published many years ago, that rehash 50-plus year-old appraisal theories and techniques.

When I first started reading the book, Appraising the Tough Ones, Creative Ways to Value Complex Residential Properties, published by the Appraisal Institute, I encountered the usual academic, hard to read writing style and content in the introduction (i.e., the use of the word "elucidate").

I was pleasantly surprised to see a very different writing style in the remainder of the book: practical, "real world", and non-academic. The author, Frank Harrison, MAI, SRA has a refreshing, easy to read and understandable writing style. Even more surprising, the author really understands and addresses the practical part of real world, lender based, residential appraising. For example, on the first page in the first chapter, "Many complex residential assignments can be readily identified. An appraiser can easily spot a property that is different from the rest. The appraiser's initial reaction may be a fervent hope that the property being observed is not the subject property; invariably, it is."

Although I have been appraising all types of residential properties for almost 30 years, by the end of Chapter One, I had learned several new ways of approaching complex properties.

Highest and best use analysis is often under-utilized by residential appraisers, probably because of lender work, where if the highest and best use is not the present use there is typically no loan made. One 13- page chapter is devoted to this extremely important topic.

When confronted with a difficult complex residential assignment, the traditional applications of the three approaches often don't help much. For the first time I have seen an appraisal book using the word "creativity" in a positive manner. "Complex residential assignments frequently require creativity. To find creative solutions to unusual problems, appraisers must often resort to techniques that are nontraditional, atypical, and sometimes almost revolutionary. There are no unsolvable problems, only appraisers who cannot or will not apply the techniques necessary to solve them."

In textbooks, matched paired sales sound great, but often aren't practical, particularly for complex properties. Per the author, "In the real world, for every adjustment that can be supported by a matched pair, another matched pair can usually be found to contradict the adjustment."

If you've ever worked in a market with declining values, you know the time adjustment can be tough to prove. The book explains how to use data such as changes in listing data, days on market, and comparison of rents.

Most appraisers encounter nonconformances, typically caused by zoning changes over the years. Three types of nonconformances are discussed: activity (i.e., a beauty shop in a basement), design (i.e., historic districts), and standards (i.e., zoning).

Special circumstances such as life estates, partial interests, easements, stigmatized properties, and historic homes are discussed.

USPAP issues are included, such as pressure for low values (estates), competency and how to get it, appropriate data for retrospective appraisals, and reporting requirements.

On the minus side, the book lacks a list of references, which would be really useful for specific property types and appraisal issues, particularly since some topics have only a brief discussion, such as life estates and environmental problems. The lack of an index is surprising, as desktop publishing programs make them a breeze to produce.

Should you buy this book?

This book is a "must have" for all residential appraisers. in today’s world of “supporting” adjustments.

Where to buy these books

Both are available from the Appraisal Institute at www.appraisalinstitute.org.
Valuation by comparison: Price: $40.00 Member Price: $30.00
Appraising the tough ones: Price: $45.00 Member Price: $35.00
Plus shipping and handling
To order, Google the book titles.

The Dictionary of Real Estate Appraisal, 6th edition - Review

Dictionaries tell you what words mean. They are important no matter you are doing. We all used them in school, including the Big Dictionary - Webster's. Now, they are much easier to use because of electronic and online versions. We don't need to have a Webster dictionary on a big stand.

The 434-page Dictionary is published by the Appraisal Institute in print and pdf formats.. Price for the print or PDF: $125.00 AI member price: $95.00. To purchase both versions: Price: $175.00. AI member price: $125.00, a savings of $75 non-member and $65 member.

The easiest way to order is to Google the title, including the edition.

I have been using appraisal dictionaries published by the Appraisal Institute, and predecessor organizations, since they were available after I started appraising 40 years ago.

Previous editions of appraisal dictionaries

The first edition of the title "Dictionary of Real Estate Appraisal" was published in 1984. Previous editions were "Real Estate Appraisal Terminology, published in 1981 and 1975. Previous dictionaries had titles that included "terminology" and included other material, going back to 1954.

The first reference is "Appraisal Terminology: preliminary report of the education and research committee American Institute of Real Estate Appraisers in 1935. Many thanks to the Eric Goodman with the Appraisal Institute's Most Excellent Lum Library for this information.

What is in the dictionary

Most of the definitions and addenda material is for non-residential properties as there are many more property types.

It has greatly expanded beyond earlier editions, which only had a dictionary. The current edition is similar in size to the previous 4th (2002) and 5th edition (2010). The current edition has 234 pages in the dictionary and the remaining 434 pages is addenda.

There is more in the dictionary than just a list of words, such as cross-references to other entries in the Definition of Terms section. Some also direct the reader to definitions or additional information in the Addenda rather than other entries in the Definition of Terms section of the dictionary.

In the Addenda section are glossaries that can really help when you are not sure what you want.

- Property Types and Subtypes
- Real Estate Organizations and Professional Designations
- Federal Agencies, Legislation, Programs, and Court Cases
- Measures and Conversions
- Mathematics and Statistics Glossary
- Green Building Glossary
- Environmental Contamination Glossary
- Agriculture, Forestry, Soils, and Wetlands Glossary
- Architecture and Construction Glossary

There is a 4-page bibliography. There is no index, typical for Appraisal Institute books.

Who worked on the dictionary?

Dozens of practicing appraisers contributed to its development. Information on green building was expanded. Their names are available in the book.

Dozens of appraisers submitted comments on individual dictionary entries after publication of the 5th edition in 2010.

"Those suggestions for new terms and revisions to specific definitions were part of an ongoing conversation about the language of real property valuation, a process that is essential to the refinement of the content of the dictionary."

What sources of definitions were used?

"The professional literature related to valuation grows from year to year, and the curricula of education providers evolve continuously to accommodate and account for the refinements in the body of knowledge of the profession.

Many of the definitions in the dictionary were developed using information from other sources. Definitions quoted verbatim are followed by a source definition. Sources in Black's Law Dictionary, RSMeans, other professional appraisal associations, and other sources such as the World Bank (pollution) and International Council of Shopping Centers (ICSC).

What about changes between the editions

There are no plans for interim changes before the 7th edition is published.

What has changed since the 5th Edition, published in 2010?
This new edition features
• 5,000+ dictionary entries
• 1,250 revised definitions
• 450 new terms

Also included are new and revised glossaries to help real property valuers understand the language of related professionals in architecture and construction; mathematics and statistics; environmental contamination; agriculture, forestry, soils, and wetlands; and green building. Other addenda contain information on real estate organizations; important US government agencies, legislation, and programs; significant US Supreme Court decisions; and useful measures and conversions.

Samples from the dictionary

accessory dwelling unit (ADU). A small, self-contained dwelling, typically with its own entrance, cooking, and bathing facilities, that shares the site of a larger, single-unit dwelling. ADUs may be attached or built in, such as a basement apartment, or detached, such as a backyard cottage. The owner of the accessory dwelling unit is the same as the owner of the primary dwelling. Sometimes called accessory apartment, accessory unit, ancillary unit, carriage house, casita, garden suite, granny cottage, granny flat, granny unit, laneway house, mother-in-law flat, secondary dwelling unit (SDU), or sidekick.

bedroom. In general terms, a room in a dwelling intended for use as sleeping quarters that contains a closet and an egress window. Precise distinctions between a bedroom and a den or other sort of room within a dwelling are usually dictated by local custom. Zoning and health codes may also establish minimum size requirements for bedrooms. Local market preferences will establish the number of bedrooms acceptable for a residential property.

cost. 1. The total dollar expenditure to develop an improvement; applies to either reproduction of an identical improvement or replacement with a functional equivalent, not exchange (price).
2. The amount required to create, produce, or obtain a property. Comment: Cost is either a fact or an estimate of fact. (USPAP, 2016-2017 ed.) In USPAP, the term cost is used either as a historic fact or as an appraisal estimate of current future or historic reproduction or replacement cost.

religious facility. A church, temple, mosque, shrine, or other house of worship.

room count. A unit of comparison used primarily in residential appraisal. No national standard exists on what constitutes a room. The generally accepted method is to consider as separate rooms only those rooms that are effectively divided and to exclude bathrooms.

statistical analysis. Quantitative techniques used, for example, to estimate value and identify and measure adjustments to the sale prices of comparable properties; techniques include statistical inference and linear and multiple regression analyses. See also the Mathematics and Statistics Glossary in the Addenda.

value. 1. The monetary relationship between properties and those who buy, sell, or use those properties. Value expresses an economic concept. As such, it is never a fact but always an opinion of the worth of a property at a given time in accordance with a specific definition of value. In appraisal practice, value must always be qualified-for example, market value, liquidation value, or investment value. (SVP)
2. The monetary relationship between properties and those who buy, sell, or use those properties. Value expresses an economic concept. As such, it is never a fact but always an opinion of the worth of a property at a given time in accordance with a specific definition of value. In appraisal practice, value must always be qualified-for example, market value, liquidation value, or investment value. (CPE)
3. The monetary relationship between properties and those who buy, sell, or use those properties. Comment: Value expresses an economic concept. As such, it is never a fact but always an opinion of the worth of a property at a given time in accordance with a specific definition of value. In appraisal practice, value must always be qualified-for example, market value, liquidation value, or investment value. (USPAP, 2016-2017 ed.)
4. The present worth of the future benefits that accrue to real property ownership.

zombie subdivision. An incomplete residential development where construction stalled before completion because of a lack of financing, often located in rural areas that had been in the anticipated path of new urban development while financing was available; also known as excess entitlements.

Why purchase this Appraisal Institute dictionary instead of using another one?

The main reason for buying this dictionary - it has been updated, with input from many appraisers. Other dictionaries have not been updated.

Also, The Appraisal Institute is acknowledged as the best education resources in the appraisal profession and its dictionary is acceptable.

Why purchase this edition?

There have been changes to definitions and new definitions added, so you need to purchase this updated version for your appraisal toolbox.

Many appraisers use definitions from the dictionary in their appraisal reports.

It is always good to review definitions to remind us of what they really say.

The glossaries can provide summary information on such topics as green buildings.

Which format - PDF, print, or both?

The PDF version is the same as the printed version and definitions can be cut and pasted. This is much more convenient that the last edition, which required logging onto the AI web site to find definitions that could be cut and pasted into your appraisal.

The printed book is not indexed or searchable. The PDF version is searchable.

When reviewing the book, I used both the PDF and print versions.

If you want to cut and paste definitions and explanations into your appraisal report, purchase the PDF or combo package.

Price for the print or PDF (each): $125.00 AI member price: $95.00. To purchase both versions: Price: $175.00. AI member price: $125.00, a savings of $75 non-member and $65 member.

The easiest way to order is to Google the title, including the edition.

Support vs. Proof for Adjustments

By Bob Keith, MNAA, IFA

As time goes by the appraisal profession is subjected to the latest notions or fads; one such notion recently is appraiser support for adjustments. There are many ways to support adjustments such as paired sales, depreciated cost, statistical/regression analysis to name a few.

Recently, it seems lenders, their investors and/or state appraiser regulatory boards have been placing more emphasis on the appraiser's support for adjustments in the sales comparison approach. In response, there has been a number of statistical/regression tools designed to help support adjustments that have hit the market.

Unfortunately, "support" for adjustments is morphing into "proof" for adjustments and more and more state boards are leaning towards the latter. The current edition of USPAP states, "When a sales comparison approach is necessary for credible assignment results, an appraiser must analyze such comparable sales data as are available to indicate a value conclusion (SR 1-4(a)) and that an appraiser, "must at a minimum, summarize the information analyzed…and the reasoning that supports the analysis… (SR 2-2(a)(viii))(italics mine.) Note that USPAP does not say appraisers must "prove" all of their adjustments.

We would be wise to remember that appraisers are in the judgment business and that judgment is the result of the appraiser's analysis of data. The Oxford dictionary defines "judgment" as, the ability to make considered decisions or come to sensible conclusions. The same dictionary defines "analyze" as, "examine methodically and in detail the constitution or structure of (something, especially information), typically for purposes of explanation and interpretation. Neither of these definitions contain an element of "proof."

USPAP's Standard Rule 1-1(a) states, "In developing a real property appraisal, an appraiser must be aware of, understand and correctly employ those recognized methods and techniques that are necessary to produce a credible appraisal."

One of the most widely recognized and respected appraisal text books in the country is the Appraisal Institute's (AI) The Appraisal of Real Estate. On pages 426-427 of the Twelfth Edition it states:

"Sales adjustment processes require a sufficient number of sales from which to extract the adjustments. Often there may not be enough sales to provide a basis for all adjustment calculations.

The appraiser should recognize and explain in the appraisal report that a lack of supporting data may either reduce the validity of the adjustments made or eliminate the possibility of applying any direct sales adjustment process. When these conditions exist, the appraiser distinguishes any adjustments that are made as explanatory or judgment factors from those that are drawn from market data. In such situations appraisers commonly look to a broader array of market sales for bracketing and indirect market support" (italics mine.)

Clearly, there are occasions when an appraiser cannot "provide a basis" for all adjustments, that there may be a "lack of supporting data" or that there is no "possibility of applying any direct sales adjustment process" and that relying on "judgment factors" sometimes is necessary.

Just as clear is the fact that appraisers cannot be expected to prove all of their adjustments in an appraisal report. Accordingly, why couldn't a competent, ethical appraiser rely on her/his judgment (when making some adjustments) which is the product of their accumulated professional appraisal experience and knowledge? In doing so, however, the appraiser should heed the AI's advice and "recognize and explain in the appraisal report that a lack of supporting data may reduce the validity of the adjustments."

About the author

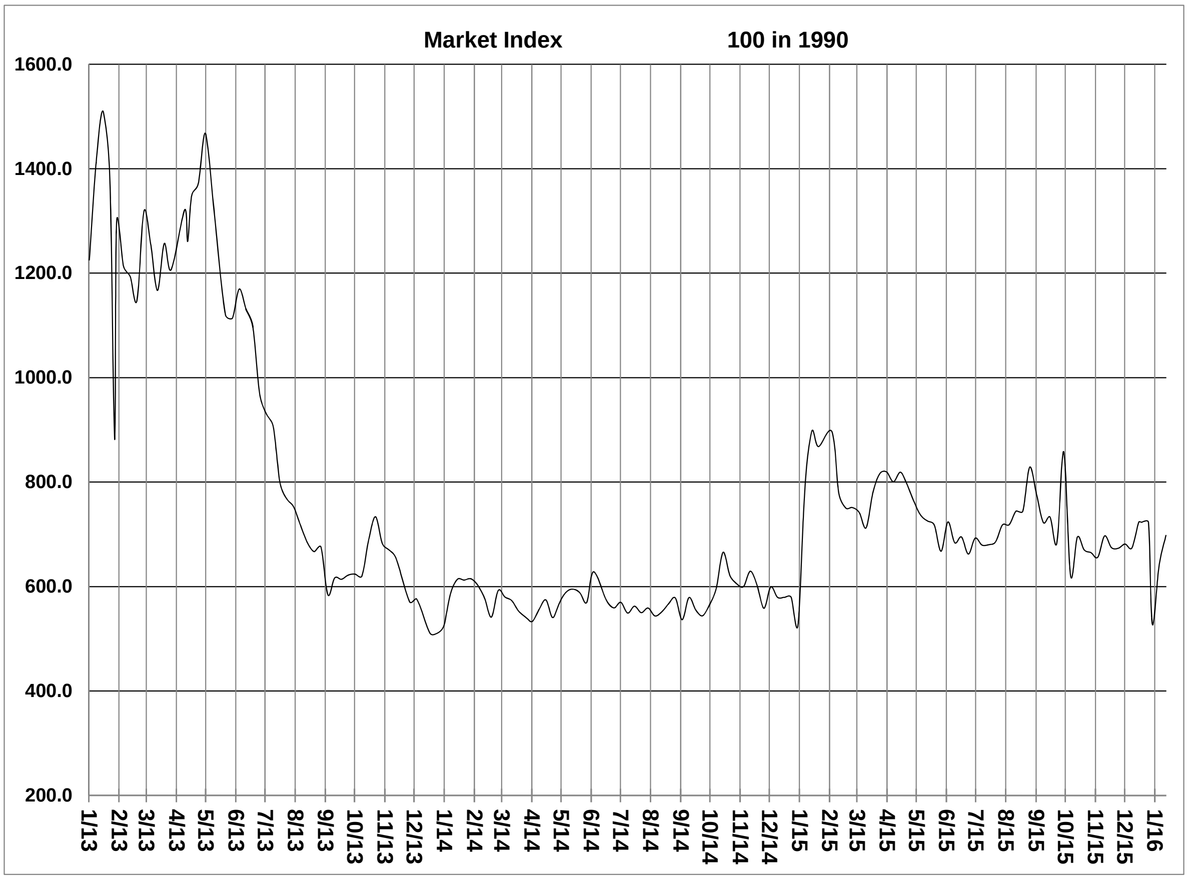
Bob Keith, MNAA, IFA is an AQB Certified USPAP Instructor, Certified General Appraiser, former Executive Director of the Oregon Appraiser Certification and Licensure Board, past President of the Association of Appraiser Regulatory Officials, past Chair of The Appraisal Foundation Advisory Council, has served as a subject matter expert for two national exam providers and is an experienced appraiser educator.

He currently serves as a board member and Treasurer of the National Association of Appraisers, is CEO of Valuation Compliance Resource and is the Compliance Officer for First Choice Appraisal Management.

Mr. Keith also offers consulting to appraiser's nationwide facing state board complaints.

MBA Loan Volume Application Index 1/13 to 1/15

As you can see below, volume has declined since early 2013. 2015 volume picked up from 2014 and has been going up and down. But, there is definitely a shortage of appraisers willing to work for low AMC fees. Loan apps have been going up and down since then. Overall volume is predicted to decline about 10% in 2016, with the anticipated interest rate increases, which may or may not happen due to international financial problems.



The survey covers approximately 75 percent of all U.S. retail residential mortgage applications, and has been conducted weekly since 1990. Respondents include mortgage bankers, commercial banks and thrifts. Base period and value for all indexes is March 16, 1990=100.

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