

SLIDE 1 – Cover Page

SLIDE 2

**Topics**

In this section we will cover the following topics:

- I. Regulation of Appraising – FIRREA
- II. Concept of Value
- III. Principles of Value
- IV. Introduction to the Three Approaches to Value
- V. Preparing a Comparative Market Analysis (CMA)

SLIDE 3

**Learning Objectives**

Upon completion of this lesson, you should be able to:

- Describe federal and state regulations pertaining to appraising
- Identify the appraiser's fiduciary relationship
- Identify the economic and physical characteristics of real estate that affect market value
- Explain what the Uniform Standards of Professional Appraisal Practice (USPAP) is and how it affects the appraisal process of real property
- Distinguish among the various types of value
- Define market value and describe its underlying assumptions
- Distinguish among value, price and cost

SLIDE 4

- Describe the four characteristics of value
- Distinguish among the principles of value
- Differentiate among the three approaches to estimating the value of real property
- Estimate value of subject property using Comparable Sales Approach
- Estimate value of subject property using Cost Approach
- Estimate value of subject property using Income Approach
- Reconcile three approaches to establish final value estimate
- Calculate value using gross multiplier analysis
- Explain how to prepare a Comparative Market Analysis (CMA), comparing and contrasting with sales comparison approach

## SLIDE 5

### Key Terms

Here are some key terms we'll encounter in this lesson:

- **appraisal** – an opinion of the value of a property at a given point in time
- **assemblage** – the process of combining two or more sites in order to produce greater value or utility
- **automated valuation model** – a service that uses mathematical modeling to value properties and doesn't consider property condition as a factor of value
- **comparative market analysis (CMA)** – an estimate of the value of a property based on an analysis of sales of properties with similar characteristics.

## SLIDE 6

- **cost depreciation approach** – a method for estimating the market value of a property based on the costs to buy the site and to construct a new building on the site less depreciation
- **curable** – a deficiency in a property that is easy or inexpensive to fix
- **depreciation** – The decline in value of a piece of property
- **economic life** – the period during which the structure is expected to remain useful in its original use
- **highest and best use** – the best and most profitable use of a property

## SLIDE 7

- **Federally Related Transaction** – any real estate-related financial transaction entered into on or after August 9, 1990, that: The Federal Reserve Board or any regulated institution engages in or contracts for and requires the services of an appraiser
- **gross income multiplier (GIM)** – a rough measure of an investment property value obtained by dividing the property's sale price by its gross annual rental income
- **gross rent multiplier (GRM)** – the ratio of the price of a real estate investment to its monthly rental income before expenses

## SLIDE 8

- **income approach** – A real estate appraisal method that allows investors to estimate the value of the property based on the income produced
- **incurable** – a defect in a property that cannot be fixed, or that would cost too much to repair relative to the value of the property
- **market value** – price that a piece of property sells for at a particular point in time
- **over-improvement** – improving a property well beyond acceptable value for the location and property  
(for example: building a one-million-dollar home in a neighborhood of \$200,000 homes)

## SLIDE 9

- **plottage** – the process of combining adjacent parcels of land to form one larger parcel; also called assemblage
- **principle of substitution** – highest amount a property is worth equal to the amount that would have to be paid to buy equivalent property in the market place
- **progression** – an appraisal term which states that real estate of lower value is enhanced by the proximity of higher-end properties
- **regression** – an appraisal term which states that the value of higher-end real estate can be brought down by the proximity of too many lower-end properties

## SLIDE 10

- **reconciliation** –the process of reconciling three major approaches-that is, the market comparison, cost, and income approaches-to arrive at an estimate of the value of the subject property being appraised
- **replacement cost** – the amount of money it may require to replace a structure with a similar type of construction
- **reproduction cost** – costs involved with identically reproducing a property with the same materials and specifications based on current prices
- **sales comparison approach** – appraisal method that compares a piece of property to other properties sold recently with similar characteristics

## SLIDE 11

- **situs** – the aspect of location that contributes to a property's market value; economic attributes of the location
- **subject property** – the property for which a borrower is attempting to secure financing or refinancing
- **Uniform Standards of Professional Appraisal Practice (USPAP)** – the quality control standards applicable for real property, personal property, intangible assets, and business valuation appraisal analysis and reports in the United States and its territories.
- **valuation** – the process of making a judgment about a subject property's value

## SLIDE 12 - Regulation of Appraising – FIRREA (Cover Page)

## SLIDE 13

### The Appraisal Foundation (TAF)

“In 1986, nine leading professional appraisal organizations in the United States and Canada formed an Ad Hoc Committee on the *Uniform Standards of Professional Appraisal Practice* (USPAP) in response to the crisis in the savings and loan industry. In 1987, the Committee established the Foundation to implement USPAP as the generally accepted set of appraisal standards in the United States. These organizations recognized the importance of ensuring that appraisals are based upon established, recognized standards.”

## SLIDE 14

“In 1989, the U.S. Congress enacted the *Financial Institutions Reform, Recovery, and Enforcement Act* (FIRREA), which authorized the Foundation as the source of appraisal standards and qualifications. The Foundation is not a membership organization but rather is composed of other organizations.”

Source: [www.appraisalfoundation.org](http://www.appraisalfoundation.org)

Title XI of FIRREA requires that competent individuals whose professional conduct is properly supervised perform all appraisals used in federally-related transactions. As of January 1, 1993, such federally-related appraisals must be performed only by state-certified appraisers.

## SLIDE 15

The Appraisal Foundation is directed by a Board of Trustees which provides financial support and oversight to three independent boards.

Appraisal Practices Board (APB) - charged with identifying and issuing guidance on recognized valuation methods and techniques (which may apply to all appraisal disciplines)

Appraiser Qualifications Board (AQB) - establishes the minimum education, experience, and examination requirements for real property appraisers to obtain a state certification

Appraisal Standards Board (ASB) - is responsible for writing, amending, and interpreting the *Uniform Standards of Professional Appraisal Practice (USPAP)*.

## SLIDE 16

### **Appraisal Subcommittee**

“The Appraisal Subcommittee's (ASC) mission is to ensure that real estate appraisers, who perform appraisals in real estate transactions that could expose the United States government to financial loss, are sufficiently trained and tested to assure competency and independent judgment according to uniform high professional standards and ethics. The ASC is responsible for monitoring the individual states in the licensing and certification of real property appraisers. In addition, the ASC acts as an oversight mechanism for activities of The Appraisal Foundation (Foundation) relating to real property appraisal.”

Source: [www.appraisalfoundation.org](http://www.appraisalfoundation.org)

## SLIDE 17

### **State Licensed & Certified Appraisers**

The Appraisal Subcommittee (ASC) oversees each state's appraiser regulatory agency. These state agencies are responsible for the certification and licensing of real estate appraisers. Additionally, these state agencies supervise appraisal related activities within their state.

The ASC makes sure each state agency is implementing the standards issued by the Appraisal Standards Board and the Appraiser Qualifications Board.

## SLIDE 18

### **Florida State Appraisal Certifications**

The state of Florida offers 3 different certifications for appraisers

#### **Registered Trainee Appraiser**

100 hours of approved course work

#### **Certified Residential Appraiser**

200 hours of approved course work

15 hours USPAP

Bachelor's Degree

#### **Certified General Appraiser**

300 hours of approved course work

15 hours USPAP

Bachelor's Degree

## SLIDE 19

### **Regulation of Appraisal Practice**

**Professional standards** – The Uniform Standards of Professional Appraisal Practice (USPAP) is a set of standards, guidelines and provisions for the appraisal industry.

*It resulted from the cooperation of nine national appraisal organizations in 1985.*

The "competence" provision requires appraisers to assess whether they have the necessary knowledge and competence to perform a specific assignment. If they do not, they must disclose this fact.

The "departure" provision permits appraisers to perform an appraisal that does not meet all the USPAP guidelines provided they have informed the client of the limitations of the incomplete appraisal and if the partial appraisal will not be misleading.

## SLIDE 20

**Comparative Market Analysis (CMA):** "A method of determining the value of real property used by appraisers and real estate brokers that compares actual recent sales of similar local properties to arrive at an indicated value. Small differences in the properties are assigned positive or negative dollar values to allow for direct comparison."

While the CMA serves a useful purpose in setting general price ranges, brokers and agents need to exercise caution in presenting a CMA as an appraisal, which it is not. Two important distinctions between the two are objectivity and comprehensiveness.

## SLIDE 21

### **Broker's Price Opinion**

A Broker's Opinion of Value (BOV) is defined as "An opinion of value developed by a real estate agent or broker rather than by a licensed or certified appraiser."

A Broker's Price Opinion (BPO) is defined as "An opinion of property price rendered by a licensed real estate agent or broker."

## SLIDE 22

### Steps in the Appraisal Process

A systematic procedure enables an appraiser to collect, organize and analyze the necessary data to produce an appraisal report.

1. Identify the purpose
2. Assimilate relevant data
3. Assess the highest and best use
4. Estimate the value of the land
5. Apply the three approaches to estimating value
6. Reconcile the values from the approaches
7. Compile the report

## SLIDE 23

**Purpose** – The first step in the process is to define the appraisal problem and the purpose of the appraisal.

Identifying the subject property by legal description

Specifying the purpose of the appraisal, for example, to identify market value for a purchase, identify rental levels, or establish a value as collateral for a loan

Specifying the interest to be appraised

Specifying the date for which the appraisal is valid

Identifying the type of value to be estimated

## SLIDE 24

**Data** – The second step is to collect, organize and analyze relevant data about the subject property. Information relevant to the property includes notes and drawings from physical inspection of the subject, public tax and title records, and reproduction costs. Relevant information about the market includes environmental, demographic, and economic reports concerning the neighborhood, community, and region.

**Highest and best use** – The third step is to analyze market conditions to identify the most profitable use for the subject property. This use may or may not be the existing use.

## SLIDE 25

**Land value** – The fourth step is to estimate the land value of the subject. An appraiser does this by comparing the subject site, but not its buildings, with similar sites in the area, and making adjustments for significant differences.

**Three approaches** – The fifth step is to apply the three basic approaches to value to the subject: *the sales comparison approach, the cost approach, and the income capitalization approach*. Using multiple methods serves to guard against errors and to set a range of values for the final estimate.

## SLIDE 26

**Reconciliation.** The sixth step is to reconcile the value estimates produced by the three approaches to value into a final value estimate. To do this, an appraiser must

Weigh the appropriateness of a particular approach to the type of property being appraised

Take into account the quality and quantity of data obtained in each method

**Report.** The final step is to present the estimate of value in the format requested by the client.