



# **Property Valuation**

## Lesson 13

### Improvement Details and Sales Analysis

45 Hour Louisiana Post-Licensing

## IMPROVEMENT DETAILS

### **Building Description**

An accurate description of the improvements is essential in order to value the property. A building description involves an analysis of the building's design, layout, construction details, size, condition, and current use that provides the basis for comparison the subject property's improvements, and the improvements typically accepted in the subject property's market.

UAD - To improve the quality and consistency of appraisal data on loans delivered to the GSEs (*privately held corporations with public purposes created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy*), Fannie Mae and Freddie Mac, at the direction of the Federal Housing Finance Agency (FHFA), have developed the Uniform Appraisal Dataset (UAD), which defines all fields required for an appraisal submission for specific appraisal forms, and standardizes definitions and responses for a key subset of fields. For appraisals with an effective date (date of inspection) on or after September 1, 2011, the appraisal report must be completed in compliance with the UAD for conventional mortgage loans sold to Fannie Mae or Freddie Mac.

Building Style – Uniform Residential Appraisal Reports require an appraiser to identify an appropriate architectural design (style) type descriptor that best describes the subject property. Styles and terms depicting a style may be unique to specific market areas. A popular style in Louisiana is “ranch”; other styles include, but are not limited to: colonial, rambler, farmhouse, etc.

Number of Stories – Identifies the house as either: 1, 1.25, 1.75, 2.0, etc. stories. Markets vary in the interpretation of a 1.5 story. Some identify the degree of the second story based upon the percentage of area relative to the first story. Other market areas determine a partial second story as finished area constructed within the roof line. You should identify the norm for this term in your local market area.

Level – Per ANSI Z765-2003: Areas of the house that are vertically within 2 feet of the same horizontal plane.

### **Age of the Improvements**

#### Age-Life of Improvement(s)

A structure is comprised of structural components with varying useful lives. Some can be classified as long lived items and others are short lived items.

By Definition:

Long-lived items: A building component with an expected remaining economic life that is the same as the remaining economic life of the entire structure.

Short-lived items: A building component with an expected remaining economic life that is shorter than the remaining economic life of the entire structure.

The relationship between the age of improvements and the life of the improvements can be done for each independent component; however, the typical means is an age life estimate applied to the whole structure.

## Actual Age vs. Effective Age

By Definition:

Actual Age: Chronological age of the improvement(s)

Effective Age: The age of the improvement(s) based upon the amount of observed deterioration and obsolescence sustained.

Overall Actual Age = Overall Effective Age: Property has been adequately maintained over its life.

Overall Effective Age < Overall Actual Age: Property has been upgraded and competes in the market place with newer properties.

Overall Actual Age < Overall Effective Age: Property has deteriorated to a degree that it competes in the market place with older properties.

## **Construction Components and Quality/Condition Rating**

### Foundation

This is called the substructure of the house/building, used as support of the structure. Note if the structure is on slab or is supported with piers or other support. Evidence of foundation problems based upon a viewing, may present itself as cracks in the foundation and perimeter walls.

### Framing

The framing is the structural support of the house/building. Houses are typically framed with wood, whereas, commercial structures may have steel or concrete framing. Evidence of defective framing based upon viewing may present itself as cracks in the wall, exterior walls that bulge, and issues with the opening and closing of doors and windows. The vertical framings extending from the floor to the ceiling of a floor are called "studs".

### Roof

Roof types vary. Some typical terminology includes:

- Flat – typically used in commercial and industrial buildings
- Lean-to (saltbox)
- Gable
- Gambrel
- Hip
- Mansard
- Monitor
- Sawtooth

Roof Covering: Asphalt shingles (typical in residential construction), asbestos, wood shake, slate, clay tile, etc.

Additional considerations include identification of drainage (gutters and downspouts) and type (i.e. copper vs. aluminum). Identification of Chimneys: Construction and ventilation type.

## **Exterior Walls**

Identify walls that are load bearing vs. non-load bearing.

Identify the exterior wall finish – old brick, new brick, stucco, asbestos shingle, siding (type), etc. Per ANSI, exterior finishes include, but are not limited to, masonry or masonry veneer, wood, aluminum or vinyl siding, or gypsum wall board when used on the exterior wall common to an attached garage.

Facade is a front or facing that differs from the design and construction of the rest of the house/building. Special facades may cost extra and may affect pricing/value.

## **Insulation**

### **Type and Quality**

Type – The insulation types vary and each type has a specific rating. The insulation types come in batts, rolls, foams, and loose fill products.

Rating – The ability of an insulation material to resist the flow of heat is measured in R values. This is a measurement of the British Thermal Units (BTUs) that are transmitted in one hour through a layer of insulation. The higher the R value, the better the insulation.

<b>R-value of Insulation Materials</b>	
<b>R-value per Inch</b>	<b>Materials</b>
3.6 - 7.5	Foams
2.8 - 3.8	Cellulose
2.5 - 4.0	Perlite
2.8 - 3.7	Rockwool
3.2 - 3.5	High Density Fiberglass
2.2 - 3.2	Fiberglass
2.4 - 3.0	Vermiculite

R-values depend upon the type of material, its thickness, and its density. One source indicates the following minimum R-value standards for Louisiana:



Minimum R-values of Building Surfaces for North and South Louisiana		
Surface Areas	North	South
Raised floors	11	0
Perimeter slab	8	6
Walls	19	19
Fenestration	2	2
Ceilings	30	26

Note that code requirements vary, and this presentation is provided as a guide to understanding the impact of insulation, general types, and the need to inquire about the R-rating. However, all agree that proper installation is the key!

### **Equipment and Mechanical Systems**

**Plumbing:** Identification of the plumbing systems and any special plumbing fixtures in the structure that impact value/price is important. In houses, particular attention is paid to identification of the bathroom number and whether it is a full bath or a half bath based upon fixtures. The UAD (Uniform Appraisal Data) requirement for GSE appraisals indicates that a bath that features just a toilet is not accounted for as a half bath. This is referred to as a quarter bath. The presentation of a full and half bath count is with the full bath number presented first, followed by a decimal and then the half bath count. For instance, 3.2 indicates three whole baths and two half baths. Understanding this presentation of information is useful to Realtors.

Specific identification of special features, such as unique plumbing fixtures (bidet), shower capabilities, tub type, etc., as well as, energy efficiency must also be considered. Hot water systems vary. Identification and impact on value/price is important.

**Heating, Ventilation and Air-Conditioning Systems:** Proper identification of the type, number of units and efficiency must be considered. Consider how the system is fueled: natural gas or electricity. Identify if the system is a central system with single or multiple zones, or a stand-alone unit(s). A structure can have varying heating systems in place.

**Electrical Systems:** Identify any unique system that may impact price/value and adequacy of same. Special electrical fixtures should also be identified, and the impact on value/price considered. Identify any back-up power system in place (generator) and method of use. Consider impact on value/price.

**Miscellaneous Systems:** Identification of the existing electronic features, Internet capability, and security systems are additional items to consider in order to properly price the house. Determine what features impact value/price. Value/price is not necessarily equivalent to the cost of the items.

## Interior Finishes and Design

Property identification involves identifying the type of finish, in addition to the condition of the finish. Identification of condition involves identification of deterioration, needed repairs, needed upgrading/modernization, in addition to identifying recently completed renovation, remodeling and upgrading.

Layout description is important, with details on room count required in MLS systems, properly identifying the number of total rooms, number of bedrooms and number of bathrooms. Reporting systems require a count of the rooms and a proper identification of their uses. Room sizes are also required; however, the dimensions are based upon interior size descriptions and do not sum to living area.

### Floors

Realtors should identify the type and condition of the floors. Additional consideration must be made for consistency with ANSI. Per ANSI, floor finishes include, but are not limited to, carpeting, vinyl sheeting, hardwood flooring, and concrete floors with decorative finishes, but do not include bare or painted concrete. ANSI emphasizes consistent like and quality throughout the house. Decorative finishes are long-lasting or permanent components of the slab, produced by such methods as chemical staining, integral coloration of the concrete, scoring, or stamping that modify the texture or appearance of the slab.

### Walls and Ceilings

Identify ceiling height and wall and ceiling finishes. Walls are either load bearing or non-load bearing. Additional consideration must be given to other internal supports, including beams, columns and trusses.

Per ANSI, wall and ceiling finishes include, but are not limited to painted gypsum wall board, wallpaper-covered plaster board, and wood paneling.

### Kitchen

Kitchen finishes, appliances, and functionality are often value/price factors. Such finishes should be identified for the subject and for the comparables for comparison purposes.

### Other Construction Components to Consider

Media Room (included or not included in living area) – Quality of construction and accessibility from living area are important considerations to determine how to accurately report this area, in addition to identification of the electronic systems and the value/price contribution to the property.

Outdoor kitchens/fireplaces: This is becoming a popular construction feature in good quality houses. Proper identification of the finishes and appliances is important, along with the market's willingness to pay for such features.

Building "Green": There is no single definition of what constitutes a "green building" that is agreed upon by the real estate community; however, there are shared themes. According to the US EPA, green buildings are designed to reduce the overall impact of the built environment on human health and natural environment by:

- Using energy, water, and other resources efficiently.
- Protecting occupant health and improving employee productivity.
- Reducing waste, pollution and environmental degradation.

In residential dwellings (houses), building green is sometimes referred to as building a high performance house, or one that takes advantage of energy efficiency, and sustainable and environmentally friendly products. The government is strongly encouraging the use of environmentally friendly construction.

There are several green rating programs available in communities. A few sample programs include:

- **Energy Star Certification:** This is a joint program of the US EPA and Dept. of Energy created to help save money and protect the environment through energy-efficient products and practices. To earn the Energy Star label, a home must meet energy-efficiency guidelines set by the EPA. A HERS Index is used to rate the energy efficiency of a home. A HERS Index of 100 is representative of the standard code-built house. An Energy Star house must be at least 15% more energy efficient than the standard home, meaning the maximum score for a qualifying home is 85. Details can be obtained at <http://www.energystar.gov>.
- **Leadership in Energy and Environmental Design (LEED) Certification:** This is a voluntary green building certification program developed by the U.S. Green Building Council. Details can be obtained at <http://www.usgbc.org>
- **NAHB Green Building Certification:** Certification offered through NAHB. Program details can be obtained at <http://www.nahbgreen.org/>

Energy efficient items vary, but can include special water systems, heating systems, solar panels, energy windows, special insulation, etc.

In October, 2012, the Baton Rouge Business Report noted that the Baton Rouge office of the law firm of Phelps Dunbar received the LEED certification from the U.S. Green Building Council; making it the first law firm in Louisiana to have its offices awarded the energy-efficient distinction. The following is an excerpt from the article:

*The certification process takes years because the green features within the building must be proven to be as energy efficient as they were designed to be. In Phelps Dunbar's case, the features it used to meet the rigorous LEED standards include efficient lighting, green building materials and the incorporation of sustainable energy-use strategies. The firm's offices also got points toward LEED certification for being located within a half mile of a residential neighborhood, providing discounted parking for employees who carpool, having 90% of its appliances Energy Star rated, purchasing a two-year contract to support renewed initiatives in green energy, providing recyclables collections, and reusing at least 30% of the furniture from its former offices in its new space, among other things.*

In Louisiana, there is a resource to help Realtors understand high performance products in Louisiana. LA House is located on the Louisiana State University Campus. This teaching facility is available for free to walk through. There are staff members to provide guided tours to teach information regarding building a house that is environmentally friendly and wind resistant for Louisiana's environment. The house includes cutaways to allow viewing of framing and insulation. It demonstrates "green" building in energy-efficient items, water conservation, waste management, pollution preventions and storm water management, and the use of environmentally responsible materials.

**LaHouse - Home and Landscape Resource Center includes:**

- a permanent **showcase house** with exhibit and resource room
- 7 acres of educational **landscape exhibits**
- a multi-media **teaching center**
- **educational outreach** to consumers, professionals and youth

**that address national and regional challenges, including:**

- energy independence
- hurricanes and floods
- pollution prevention
- waste management
- asthma, mold and other indoor air hazards
- barriers to technology transfer
- unstable fuel costs
- Formosan subterranean termites
- warm, humid climate
- threatened drinking water supplies
- aging population
- economic vitality

It includes a wide range of practical and proven solutions that integrate the LaHouse benefits criteria, from no-cost to higher-end, high-performance products and systems for both new and existing homes. It is a hub of ongoing educational outreach through a network of Extension educators on site, in all 64 parishes of Louisiana and throughout the gulf region states.

LaHouse is open Monday through Friday from 10:00 a.m. - 4:30 p.m. for walk-in tours and holds a quarterly seasonal Saturday open house with staff experts on hand (check website for dates) . Groups interested in programs and guided tours may contact a LaHouse representative at 225-578-7913.

**Quality and Condition**

Identification of the quality and condition of each construction component is important; however, an overall identification of the house relative to the competitive market is also important. Appraisers are required to address this on the residential appraisal form. The new dataset that is required to be used by appraisers for reports prepared for GSEs specifies certain quality and condition ratings. The previously used statements of good, average, or poor are no longer allowed. In order to understand the quality and condition ratings indicated by appraisers, we have included explanations from the Fannie Mae website.

*UAD form requires appraisers to identify a “Condition Rating” on a property. These ratings range from C1 through C6 and reflect specific condition requirements. The UAD form also requires an appraiser to identify a “Quality Rating”, which range from Q1 – Q6.*

**UAD Condition Ratings**

- C1 The improvements have been recently constructed and have not been previously occupied. The entire structure and all components are new and the dwelling features no physical depreciation.
- C2 The improvements feature no deferred maintenance, little or no physical depreciation, and require no repairs.
- C3 The improvements are well maintained and feature limited physical depreciation due to normal wear and tear.
- C4 The improvements feature some minor deferred maintenance and physical deterioration due to normal wear and tear.
- C5 The improvements feature obvious deferred maintenance and are in need of some significant repairs.
- C6 The improvements have substantial damage or deferred maintenance with deficiencies or defects that are severe enough to affect the safety, soundness, or structural integrity of the improvements.



## UAD Quality Ratings

- Q1 Dwellings with this quality rating are usually unique structures that are individually designed by an architect for a specified user (exceptionally high quality – exceptional custom construction).
- Q2 Dwellings with this quality rating are often custom designed for construction on an individual property owner’s site. However, dwellings in this quality grade are also found in high-quality tract developments featuring residences constructed from individual plans or from highly modified or upgraded plans (finishes are high or very high quality).
- Q3 Dwellings with this quality rating are residences of higher quality built from individual or readily available designer plans in above-standard residential tract developments, or on an individual property owner’s site (workmanship exceeds acceptable standards and many materials have been upgraded from “stock” standards).
- Q4 Dwellings with this quality rating meet or exceed the requirements of applicable building codes. Standard or modified standard plans are utilized, and the design includes adequate fenestration and some exterior ornamentation and interior refinements. Materials, workmanship, finish, and equipment are of stock or builder grade and may feature some upgrades.
- Q5 Dwellings with this quality rating feature economy of construction and basic functionality as main considerations. Such dwellings feature a plain design using readily available or basic floor plans, featuring minimal fenestration and basic finishes with minimal exterior ornamentation and limited interior detail. These dwellings meet minimum building codes and are constructed with inexpensive stock materials, with limited refinements and upgrades.
- Q6 Dwellings with this quality rating are of basic quality and lower cost; some may not be suitable for year-round occupancy.

Note that accurate completion of the UAD form also requires an appraiser to indicate if there has been any material work done to the kitchen(s) or bathroom(s) in the prior 15 years. If yes, the level of work completed and timeframe of completion must be indicated.

By definition, “updated” condition means that the area of the home has been modified to meet current market expectations. Per Fannie Mae guidelines, “an updated area of the home should have an improved look and feel, or functional utility”.

“Remodeled” condition indicates that significant finish and/or structural changes have been made that increase utility and appeal through complete replacement and/or expansion. Per Fannie Mae guidelines, “a remodeled area reflects fundamental changes that include multiple alterations”.

Fannie Mae website: <https://www.efanniemae.com/sf/lqi/umdp/pdf/uadreqsforlenders.pdf>

This is the "Improvements" section of the FNMA residential appraisal report.

General Description				Foundation		Exterior Description		materials/condition		Interior		materials/condition		
Units	<input type="checkbox"/> One	<input type="checkbox"/> One with Accessory Unit		<input type="checkbox"/> Concrete Slab	<input type="checkbox"/> Crawl Space	Foundation Walls				Floors				
# of Stories				<input type="checkbox"/> Full Basement	<input type="checkbox"/> Partial Basement	Exterior Walls				Walls				
Type	<input type="checkbox"/> Det.	<input type="checkbox"/> Att.	<input type="checkbox"/> S-Det/End Unit	Basement Area sq. ft.		Roof Surface				Trim/Finish				
	<input type="checkbox"/> Existing	<input type="checkbox"/> Proposed	<input type="checkbox"/> Under Const.	Basement Finish %		Gutters & Downspouts				Bath Floor				
Design (Style)				<input type="checkbox"/> Outside Entry/Exit	<input type="checkbox"/> Sump Pump	Window Type				Bath Wainscot				
Year Built				Evidence of <input type="checkbox"/> Infestation		Storm Sash/Insulated				Car Storage <input type="checkbox"/> None				
Effective Age (Yrs)				<input type="checkbox"/> Dampness	<input type="checkbox"/> Settlement	Screens				Driveway # of Cars				
Attic	<input type="checkbox"/>	<input type="checkbox"/> None		Heating <input type="checkbox"/>	FWA <input type="checkbox"/>	H/WBB <input type="checkbox"/>	Radiant <input type="checkbox"/>	Amenities	<input type="checkbox"/>	WoodStove(s)#	Driveway Surface			
I M P R O V E M E N T S	<input type="checkbox"/> Drop Stair	<input type="checkbox"/> Stairs	<input type="checkbox"/> Other		Fuel		<input type="checkbox"/>	Fireplace(s) #	<input type="checkbox"/>	Fence	<input type="checkbox"/>	Garage # of Cars		
	<input type="checkbox"/> Floor	<input type="checkbox"/> Scuttle	Cooling <input type="checkbox"/>	Central Air Conditioning		<input type="checkbox"/>	Patio/Deck	<input type="checkbox"/>	Porch	<input type="checkbox"/>	Carport # of Cars			
	<input type="checkbox"/> Finished	<input type="checkbox"/> Heated	<input type="checkbox"/>	Individual <input type="checkbox"/>	Other <input type="checkbox"/>		<input type="checkbox"/>	Pool	<input type="checkbox"/>	Other	<input type="checkbox"/>	Att. <input type="checkbox"/>	Det. <input type="checkbox"/>	Built-in <input type="checkbox"/>
	Appliances <input type="checkbox"/>	Refrigerator <input type="checkbox"/>	Range/Oven <input type="checkbox"/>	Dishwasher <input type="checkbox"/>	Disposal <input type="checkbox"/>	Microwave <input type="checkbox"/>	Washer/Dryer <input type="checkbox"/>	Other (describe)						
	Finished area above grade contains: Rooms Bedrooms Bath(s) Square Feet of Gross Living Area Above Grade													
	Additional features (special energy efficient items, etc.)													
	Describe the condition of the property (including needed repairs, deterioration, renovations, remodeling, etc.).													
	Are there any physical deficiencies or adverse conditions that affect the livability, soundness, or structural integrity of the property? <input type="checkbox"/> Yes <input type="checkbox"/> No If Yes, describe													
	Does the property generally conform to the neighborhood (functional utility, style, condition, use, construction, etc.)? <input type="checkbox"/> Yes <input type="checkbox"/> No If No, describe													

**Accrued Depreciation**

Depreciation is the loss in property value from any cause; the difference between the cost of an improvement and the market value on the same date.

There are three primary categories of depreciation:

- Physical Deterioration
- Functional Obsolescence
- External Obsolescence

**Physical Deterioration**

The physical deterioration of a property can be classified in two forms: curable or incurable.

**Curable Physical Deterioration** is a form that can be practically and economically corrected as of the effective date of analysis. This is also referred to as deferred maintenance; for example, repairing broken items such as air conditioning units, doors, windows, etc. The item(s) must be replaced in order for the structure to continue to function in its intended use.

The test for curing the item is to determine if the value created by curing the item is greater than the cost to cure, or that expenditure is necessary for the entire structure to maintain value. The cost of the deferred maintenance is basically the cost to cure or restore the item to new or reasonably new condition.

**Incurable Physical Deterioration** is a form that cannot be practically or economically corrected as of the effective date of analysis. Incurable physical deterioration may be incurred by short lived and/or long lived items.

A measure of incurable depreciation can be computed as a Simplified Age-Life calculation:

$$\text{Effective Age} / \text{Useful Life} = \text{Degree of Depreciation}$$

The numerator is estimated based upon age and maintenance of the structure (an average of all components)

The denominator may be obtained from a cost manual based upon construction components. In order to account for curable and incurable deterioration, the process involves deducting the cost to cure the "curable" deterioration and applying the ratio to the cured cost.

For example, if a 15 year old house costs \$200,000 to construct. The roof requires replacement at a cost of \$20,000. Curing the roof is necessary for the house to maintain its value, so the item is curable. The useful life of the structure is considered 60 years. Physical deterioration can be computed as follows:

Total Replacement Cost		\$200,000
Less: Cost to Cure Deferred Maintenance Items (Replace Roof)	\$20,000	
Remaining Replacement Cost attributed to long-lived items		\$180,000
Less: Incurable deterioration based upon the age/life method (15/60 = 25% * \$180,000)	\$45,000	
Physically depreciated conclusion		\$135,000

The computation of depreciation should be supported with market extracted age/life relationship information. This would involve breaking down sale information on a comparable property into price paid for land and for improvements. The difference between the cost and current value of improvements reflects depreciation. A division of this by the age of the structure indicates a depreciation rate. The age/life method presented above is a simplistic overall view of obtaining a value based upon cost and age. The value of the land is added to the depreciated cost, resulting in a total property value indication.

### **Functional Obsolescence**

In order to understand functional obsolescence, one must understand functional utility, or 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 type of rooms.

*Functional Obsolescence* is the loss in value resulting from poor or impaired functional utility. Functional obsolescence can also be classified as curable or incurable.

Five types of functional obsolescence:

- Curable functional obsolescence caused by a deficiency requiring an addition of a new item.
- Curable functional obsolescence caused by a deficiency requiring the substitution (replacement) of an existing item.
- Curable functional obsolescence caused by a super adequacy that is economically feasible to cure.
- Incurable functional obsolescence caused by a deficiency.
- Incurable functional obsolescence caused by a super adequacy.

Curable functional obsolescence requires replacement or addition in order for the property to compete with the other properties in the market. The measure of whether it is curable is a function of the value added being greater than cost. The cost to cure is computed as:

	Cost to tear out or remove existing component
+	Cost of correct replacement component
+	Any costs above and beyond total cost if included in initial construction
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-	Salvage Value (if any)
<hr/>	
	Cost to cure

Super adequacy is caused by the structure, or an item in the structure, exceeding market requirements, where the value contributed is less than the amount of its cost. An example of a super adequacy is a house with a built-in pool in a neighborhood of relatively low-cost homes. The functional loss is the difference between the cost and the value added.

Super adequacy can also be a house that is too large in size for the neighborhood. All else being equal, the evidence of loss can be analyzed by a study of unit value. Typically, the unit value obtained from a larger house is less than that obtained from the bracketed house range for the neighborhood. For example, you have a listing of a 4,000 square foot house in a neighborhood of 2,300 – 2,600 square foot houses. The typical unit value range (Sales Price/Square Foot of Living Area) is \$100 - \$110 per square foot. All else being equal, your price will likely be below the typical unit value range due to incurable functional obsolescence, or super adequacy.

Procedure for estimating all forms of Functional Obsolescence

	Cost of the existing item (i.e. insufficient HVAC Unit)
-	Less depreciation previously charged
+	Plus Cost to cure or Value of the Loss (purchase cost and cost to install new unit)
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-	Less cost if installed new
<hr/>	
	Functional Obsolescence

Note that items identified as incurable at one point in time can become curable and vice versa over the life of the property.

## External (Locational or Economic) Obsolescence

External obsolescence is the loss in value attributable to an adverse influence outside the property itself.

Important points regarding external obsolescence:

- May be temporary or permanent (i.e. – oversupplied market vs. residential location next to a sewer treatment plant).
- Frequently impacts both land and improvements.
- May be economic or locational.
- Is typically incurable.

External obsolescence is the remaining loss after physical deterioration and functional obsolescence have been deducted. For example, if a house costs \$100,000 to construct and sells for \$70,000, with \$20,000 attributable to the land value and \$50,000 to the improvements, there is obviously obsolescence present. If the improvements are determined to have an effective age of 10 years and a useful life of 50 years, physical incurable obsolescence can be calculated. Let's say that no functional issues exist. The computation for external obsolescence can be computed as follows:

Total Cost of improvements		\$100,000
Less: Sales Price (excluding land = \$70,000-\$20,000)		\$50,000
Depreciation from All Sources		\$50,000
Physical Deterioration		
Curable	0	
Incurable*	\$20,000	
Functional Obsolescence		
Curable	0	
Incurable	0	
Total Physical and Functional Obsolescence		\$20,000
Allocation to external obsolescence		\$30,000
<hr/> <i>(10/50 * Improvement costs)</i>		

Note that in income producing properties, it is possible to estimate external obsolescence due to oversupply of competitive property through capitalization of rent loss. The rent loss would be the difference in rent in a stable market, less current rent. The loss is typically applied to the improvements only.

## Size of the Improvements

Office - Standard classifications are defined by BOMA (Building Owners and Managers Association) and approved by ANSI (American National Standards Institute). Commercial standards developed in 1915. BOMA web site is [www.boma.org](http://www.boma.org).

Area	Definition	Use
Gross Building Area (GBA)/Construction Area	The total floor area of a building measured from the outside finished surface of the permanent outer building walls. It is the sum of all enclosed floors of the building, including basement floors, garages, mechanical equipment floors, and penthouse floors.	Comparing single tenant building (sales/leases), determining construction costs of total structures.
Gross Measured Area	The building enclosed by dominant portion – excludes parking garages and areas outside of building line	Defined in multi-tenant buildings, but not used for leasing purposes.
Rentable Area	Measured to the inside finished surface of the dominant portion of the permanent outside wall (Gross Measured Area), less major vertical penetrations*.	Use to measure rentable area per floor and building
Usable Area	The finished surface of outside of corridor wall, to the mid-section of adjoining walls, and inside finish surface of the dominant portion of permanent outside wall.	Used to measure space tenant actually occupies and to allocate common area
Office Area	Individual unit usable area (inside surface of walls shared with common area)	Individual tenant space
Common Area	Usable area, excluding office areas of each tenant (includes walls shared with office area).	Area that provides common services to building tenants

\*Vertical penetrations – stairs, elevator shafts, etc.

Efficiency Ratio = Rentable Area/Gross Building Area  
 Add-On (Load) Factor = (Rentable Area – Usable Area/Usable Area)

Floor Rentable/Usable Area = Floor R/U Ratio (extracted from total and applied to each office area as a method of determining **Basic Rentable Area**).

Both the Add-On Factor and Floor R/U Ratio serve the same purpose, if appropriately computed and applied to the individual office area. They provide for a computation of the unit's percentage of common area.

## Other Property Types

Area	Definition	Use
Retail	Gross Leasable Area	Measured from outside walls to center of joint partition walls
Office/Warehouse	Gross Building Area	Exterior dimensions
	% of finished office	Exterior wall dimensions (ratio of office/GBA)
Apartments	Gross Building Area	Exterior dimensions
	Unit Size	Exterior wall to mid-section of adjoining wall
Condominium	Unit Size	Interior dimensions – “sheetrock to sheetrock”

Single Family Residential Dwellings: Attached and Detached

Single Family Residential	Total Area Under Roof	Exterior dimension including area with solid base and contiguous roof structure with finished ceiling (consistent like and quality). Per MLS classifications, typical areas include living area, storage, car storage, and porches
	Living Area	Exterior dimensions – consistent with finished area as defined by ANSI-Z765 and local market standards

**Units of Comparison**

Units of comparison are the components into which a property may be divided for purposes of comparison. When pricing a property, Realtors gather comparable sales data, with comparability determined based upon the varying physical features previously presented. When utilizing a physical unit of comparison, the numerator is always the known: sales price!

What is the best unit of comparison? The unit that results in the smallest standard of deviation is always the best unit of comparison given multiple possibilities.

The typical “best” units of comparison for sample property types:

<b>Property Type</b>	<b>Unit of Comparison</b>
Nursing Homes	Sales Price/Bed Or Sales Price/SF
Restaurant	Sales Price/Chair
Retail	Sales Price/SF
<b>Residential</b>	<b>Sales Price/SF of Living Area (finished area per ANSI)</b>
Parking Garage	Sales Price/Parking Space
Trailer Park	Sales Price/Pad or Hook-up
Apartment	Sales Price/Unit
Vacant Lane	Sales Price/Square Foot Or Sales Price/Front Foot Or Sales Price/Acre Or Sales Price/Buildable square foot

The analysis; however, is necessary to prove the reliability of the comparative unit. If after the analysis, the sales price divided by the comparative unit is greater than that created by the comparable sales price range, something else is driving buyers and sellers to agree upon a price. Analysis of the reasonableness of the range must be performed in every case.

## Ownership History – Property Status

Note that on the Uniform Residential Appraisal Report form, appraisers must provide the sales and listing history of the subject property for 12 months prior to the appraisal date, including the DOM, offering price(s), offering date(s) and data sources used to obtain the information including MLS, FSBO, or other source as part of property identification. Further, in the Sales Comparison Analysis section of the form, the appraiser must report the date(s) of prior sale(s) or transfer(s) of the **subject property for the three years prior to the effective date of the appraisal**. The appraiser must also report the **date(s) of the prior sale(s) or transfer(s) of any comparable property during the twelve months prior to its date of sale**.

## Ownership Interest

Physical identification is complete – now you must identify the ownership interest in the property! The ownership interest could also have a significant impact on value. Ownership interest must be considered for every site.

### Ownership Interest Definitions:

**Fee Simple** (owner maintains the entire bundle of rights) - Absolute ownership unencumbered by any other interest or estate; subject only to the limitation of eminent domain, escheat, police power, and taxation.

\*Fee simple is the interest typically transferred in residential transactions – owner’s 100% interest in the property. You typically transfer the right to own and occupy the structure.

**Leased Fee** (landlord’s interest) - An estate where ownership interest is held by a landlord, with the right of use and occupancy conveyed by lease to others; the rights of the lessor (the leased fee owner) and the lessee (leaseholder) are specified by contract terms contained within the lease.

**Leasehold** (a tenant’s interest) - The right to use and occupy real estate for a stated term and under certain conditions; conveyed by a lease.

Market Value of Leased Fee Interest + Market Value of Leasehold Interest = Market Value of Fee Simple Interest

Thus, if the leased fee interest is positive (contract rent is greater than market rent), the value to the leasehold is negative because tenant is paying too much! The value to the leasehold is positive when a tenant is renting at a below market rate.

- Leased Fee > Leasehold = Lease above market (contract rent > market rent)
- Leasehold > Leased Fee = Lease is below market (produces value to tenant)

## **LEASE PARTIES**

- **Lessor** - One who holds property title and conveys the right to use and occupy the property under a lease agreement (landlord).
- **Lessee** - One who has the right to use or occupy a property under a lease (tenant).



## **Price vs. Value**

- Price – The **amount** a purchaser agrees to pay, and seller agrees to accept, for a property at a point in time.
  - *Realtors talk price.*
- Value – The **monetary worth** of the property to the buyer and seller at a point in time
  - *Appraisers talk value.*

## **MARKET VALUE DEFINITION (as required by Financial Institutions)**

Market value, as defined in the Interagency Appraisal and Evaluation Guidelines, is 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 the seller to the buyer under conditions whereby:

- Buyer and seller are typically motivated;
- Both parties are well informed or well advised, and acting in what they consider their own best interests;
- A reasonable time is allowed for exposure in the open market;
- Payment is made in terms of cash in U.S. dollars, or in terms of financial arrangements comparable thereto; and
- 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.

Federal Register/Vol. 75, Friday, December 10, 2010  
Interagency Appraisal and Evaluation Guidelines

## **Price Not Equal to Market Value**

Liquidation Price: A forced price obtained without reasonable market exposure to find a purchaser.

Vested Interest Price: Price paid for “atypical” property interest. For example, neighboring site purchased for business expansion. Price paid above value to a typical purchaser.

## **Sales Analysis**

### **Definitions**

**Comparable Sale:** The **sale** of a **similar** property to the subject used for comparison in the valuation/pricing process. All sales are not considered comparable sales.

**Comparable Listing:** The **listing** for sale or for lease of a **similar** property to the subject used for comparison in the valuation/pricing process.

**Comparative Analysis:** This is the process by which a value indication is derived by analyzing comparable sales. The comparison may be done as a quantitative analysis or a qualitative analysis.

A **quantitative analysis** is an analysis that utilizes numerical adjustments to the sales prices of comparable properties relative to the subject property.

A **qualitative analysis** is an analysis that describes adjustments and the direction of adjustments; however, it does not provide numerical adjustment for various features. This is often used to describe the reasonableness of the adjustments, and may be used in conjunction with a quantitative analysis.

## **Sources of Comparable Data and Data Verification**

### **Public Record**

Louisiana is a disclosure state, thus, documents recorded in the various parishes are available for viewing to the general public, including both sales and mortgage documents. Many parishes now offer on-line access to the actual recorded documents. Additionally, there are other services available that provide a summary of the recorded information. Pertinent data includes vendor (seller), vendee (buyer), sales price, legal description, date of sale and recordation information. The size of the improvements, age of the improvements and municipal addresses are not typically included in the recorded document.

Note that the sales price is not legally required to reflect market value. It is simply the price noted in the legal document, and may not reflect the entire consideration paid for the real estate, or may reflect an amount above that paid for the real estate. The sales price should be verified with the seller, buyer or agents involved in the transaction, particularly when the amount is inconsistent with other market data.

### **Realtor Multiple Listing Services (MLS)**

There are currently thirteen local Member Boards in the State of Louisiana covering 45 parishes throughout the state that are part of the Louisiana REALTORS Association, including:

- Acadiana
- Baton Rouge
- Bayou - Houma
- Central Louisiana
- Greater Fort Polk
- Livingston
- Natchitoches
- New Orleans Metropolitan
- Northeast

- Northshore
- Northwest
- Saints
- Southwest

<http://www.larealtors.org/local/default.asp>



Information on each Board and the Parishes served is as follows:



**REALTOR® Association of Acadiana**  
 1819 W. Pinhook Road, Suite 115  
 Lafayette, LA 70508  
 337-233-0086, 337-234-0663 Fax, [maryjane@realtoracadiana.com](mailto:maryjane@realtoracadiana.com)  
<http://www.realtoracadiana.com>

**Executive Officer:** Mary Jane Bauer

**Parishes served:** Acadia, Iberia, Lafayette, St. Landry, St. Martin, Vermilion



**Greater Baton Rouge Association of REALTORS®**  
 14101 Perkins Road  
 Baton Rouge, LA 70810  
 225-761-2000, 225-761-2099 Fax, [herb@batonrougerealtors.com](mailto:herb@batonrougerealtors.com)  
<http://www.qbrar.com>

**Executive Officer:** Herb J. Gomez, Jr.

**Parishes served:** Ascension, East Baton Rouge, West Baton Rouge, East Feliciana, West Feliciana, Iberville, Pointe Coupee, St. Helena



**Bayou Board of REALTORS®**  
**Bayou Board of REALTORS®, Inc**  
4651 West park ave. - Houma, LA 70364 - U.S.A.  
Off: 985-868-7877 Fax: 985-851-4661  
[angel@bayourealtor.com](mailto:angel@bayourealtor.com)  
<http://www.bayourealtor.com>

**Executive Officer:** Angel Landry

**Parishes served:** Assumption, Lafourche, St Mary, Terrebonne



**Central Louisiana Board of REALTORS®**  
3921 Independence Dr., Suite 104  
Alexandria, LA 71303  
318-473-8324, 318-479-9735 Fax, [sonya@centrallarealtors.org](mailto:sonya@centrallarealtors.org)  
<http://www.centrallarealtors.org>

**Executive Officer:** Sonya M. Allen

**Parishes served:** Allen, Avoyelles, Catahoula, Evangeline, Grant, LaSalle, Rapides



**Greater Fort Polk Area REALTORS®**  
18658 Johnny B Hall Memorial Hwy, Suite B,  
Rosepine, LA 70634  
337-202-1951

**Board Contact:** Logan Morris

**Parishes served:** Beauregard, Sabine, Vernon



**Livingston Board of REALTORS®**  
1111 S. Range Ave.  
Denham Springs, LA 70726  
225-791-9991, 225-791-9996 Fax, [info@livingstonrealtor.org](mailto:info@livingstonrealtor.org)  
<http://www.livingstonrealtor.org>

**Board Contact:** Maxine Lefore

**Parishes served:** Livingston



**Natchitoches Board of REALTORS®**

304 University Parkway  
Natchitoches, LA 71457  
318-352-6267

**Board Contact:** [Michele Todtenbier](#)

**Parishes served:** Natchitoches



**New Orleans Metropolitan Association of REALTORS®**

3645 North I-10 Service Road  
Metairie LA 70002  
504-885-3200, 504-888-1812 Fax, [missy@nomar.org](mailto:missy@nomar.org)  
<http://www.nomar.org>

**New Orleans Metropolitan Association of REALTORS® - Northshore**

4350 Hwy. 22, Ste. J  
Mandeville, LA 70471  
Pat Prat, MLS Administrator  
985-882-8521, [pat@nomar.org](mailto:pat@nomar.org)

**Executive Officer:** Missy Whittington

**Parishes served:** Jefferson, Orleans, Plaquemines, St. Bernard



**Northeast Louisiana Association of REALTORS®**

1010 Stubbs Ave  
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318-387-6800, 318-387-6829 Fax, [rthibodeaux@nelarealtors.com](mailto:rthibodeaux@nelarealtors.com)  
<http://www.nelarealtors.com>

**Executive Officer:** Ross M. Thibodeaux

**Parishes served:** Caldwell, East Carroll, West Carroll, Jackson, Franklin, Lincoln, Madison, Morehouse, Ouachita, Richland, Tensas, Union, Concordia



**Northshore Area Board of REALTORS® \*New Address\***

3500 Highway 190, Suite 201  
Mandeville, LA 70471  
985-674-4233, 985-674-4465 Fax  
<http://www.nabors.org>

**Executive Officer:** Patricia Oman

**Parishes served:** St. Tammany, Tangipahoa, Washington



**Northwest Louisiana Association of REALTORS®**  
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**Executive Officer:** Linda Moore-Morgan

**Parishes served:** Bienville, Bossier, Caddo, Claiborne, DeSoto, Red River, Webster



**Saints Board of REALTORS®**  
P. O. Box 1058  
LaPlace, LA 70069-1058  
985-651-6760 Phone/Fax, [saintsboardofrea@bellsouth.net](mailto:saintsboardofrea@bellsouth.net)

**Executive Officer:** Lilly Dufrene

**Parishes served:** St. Charles, St. James, St. John



**Southwest Louisiana Association of REALTORS®**  
182 Williamsburg  
Lake Charles, LA 70605  
337-478-9717, 337-477-3973 Fax, [jackiekibodeaux@swlar.com](mailto:jackiekibodeaux@swlar.com)  
<http://swlar.com>

**Executive Officer:** Jackie Kibodeaux

**Parishes served:** Calcasieu, Cameron

Verification of the size of the improvements can be obtained from the seller, buyer, real estate agent, or other knowledgeable party; however, actual measurement is the best source. Permit information is a source; however, it must be verified.

Data in multi-listing services is a good source to obtain physical property information and details on listings and sales. Consistency in measurement and in reporting is the key to quality control of data. Contacting the agent and verifying the source of the square footage, and obtaining details on the physical condition and financing arrangement, increases the usefulness of a sale as a comparable. Other important details to consider include the list price relative to the sale price, and the length of time on the market (DOM).

If a Realtor does not report concessions, use of the data is flawed without additional verification beyond the MLS service.

In analyzing data, a Realtor/appraiser should perform a more in depth search when noting a sales price greater than the list price. This could imply atypical financing, concessions, or other arrangements in which the sales price may not reflect simply the value of the property.

## For Sale By Owner (FSBO)

These websites also offer information regarding size, condition and quality of property. Any data should be verified.

## Areas of Comparability and Test of Comparability

In appraisal theory, the “Areas of Comparability” are also called the “Elements of Comparison”. In this analysis, the Realtor/appraiser develops the degree of similarity or differences of the comparable property relative to the subject property utilizing quantitative and/or qualitative methods.

General categories include:

1. Property Rights
2. Financing Terms
3. Conditions of Sale
4. Concessions
5. Market Condition/Date of Sale
6. Locational and Physical Features

Categories 1-4 are transactional adjustments; applied typically in the order presented. Property specific adjustments address all of the variances in location, physical, and economic features between the comparables and the subject property.

Property Rights - an adjustment for comparable property rights relative to the subject. Property rights include property interests (fee simple, leased fee, leasehold), and may reflect partial interest.

An example of a property interest adjustment is if Comparable 1 was subject to a below market lease rate. Comparable 2 is very similar, but was leasing at market. If the subject property interest is fee simple interest, or available to lease at market, the Property Rights adjustment is:

$$\begin{array}{r} \text{Sales Price of Comparable 2} \\ - \text{Sales Price of Comparable 1} \\ \hline \text{Property Rights Adjustment to Comparable 1} \\ \text{(+ relative to subject)} \end{array}$$

Financing: One must understand that a closed sale with a recorded sales price is “potentially” a comparable sale, contingent upon verification of comparability, including verification of sales price paid for the real estate.

It is not a legal requirement that the recorded sales price represent the price paid for the real estate, or the market value of the real estate. There are many recorded transactions that indicate consideration (price) of \$1.00. Verification of the actual price paid for the real estate is a necessity.

A review of the financing terms is necessary to determine if the sales price reflects “typical” financing terms. In other words, verification that the sales price was not changed from the price of the real estate to a price reflective of the real estate and special financing. If special incentives or financing was involved, this must be netted out of the sales price to determine the price paid for the real estate.

Fannie Mae and Freddie Mac compliant appraisals must indicate the type of financing for each comparable sale. The choices include:

- FHA
- VA
- Conventional
- Seller
- Cash
- USDA – Rural Housing
- Other – must be detailed

#### Conditions of Sale

This involves adjustment of comparables for differences in motivation of either the buyer or the seller in a transaction; for example: a non-arm's length sale. Part of the data verification involves verifying the type of transaction. Appraisers, when completing a Fannie Mae or Freddie Mac compliant appraisal, are required to indicate the sale type for each comparable property. The sale type categories include:

- REO sale – real estate owned
- Short sale
- Court ordered sale
- Estate sale
- Relocation sale
- Non-arm's length sale – related parties
- Arm's length sale - unrelated parties acting in his/her own best interest
- Listing

Proper indication of the “sale type” is necessary in order to determine if the price paid reflects market value, or another value caused by a distress sale situation. A distress sale is a sale involving a seller acting under undue duress. Remember, financial institutions require that an appraisal for mortgage purposes reflects “market value” as defined by the interagency guidelines. This requires a willing and knowledgeable buyer and seller agreeing upon a price, without undue stimulus. If a sales price is not the equivalent of the market value, the comparable must be adjusted to reflect the market value in order to relate it to the subject property.

A vendor /vendee with the same last name should always involve additional research to verify the relationship between the parties to determine if the recorded price reflects market value. A sale between related parties is considered a “Non-arm's length sale”.

A listing provides information, and comparable listings should always be considered; however, a listing is not a closed recorded sale and should not be considered as such. All else being equal, a listing would reflect the top potential price for the subject property.

Concessions: The Appraisal Institute defines a *Concession* as:

*“A financial payment, special benefit, or non-realty item included in the sale contract or rental agreement as an incentive to the sale or lease. Concessions occur when the seller or lessor agrees to pay an inducement or to give some special credit or property to a buyer or lessee, who agrees to pay a higher price than the seller or lessor would normally pay in return for the inducement or credit. Concessions usually result in artificially inflated sale prices or lease rates. Often concessions allow financing that would otherwise not be possible. Concessions may be disclosed as part of the sale or lease, but often they are not.”*



Federal law and national banking regulations have always required mortgages be based on market value. The definition is intended to ensure that appraisals reflect an opinion of the value of real estate, net of any special or creative financing or sales concessions. Examples of concessions include seller's payment to buyer to repair items outside of the sales agreement; seller incentives such as cash rebate, interest buy downs, etc. Residential appraisal forms require the appraiser to certify the standardized market value definition was used, and if it isn't, not only can appraisers get into trouble with regulators, but a mortgage originator can be forced to re-purchase the loan and the note can also be called due immediately, which can cause a borrower to go into foreclosure. The reason deduction of concessions is required is that mortgage loans are to be based only on value of real estate. Misleading a lender or lender's agent (appraiser) so that real estate is overvalued is considered mortgage fraud by the FBI. Hiding seller paid concessions from market participants can be considered "misrepresentation by omission of a material fact".

According to FHA, willing and able buyers determine the fair market value of real estate. When sellers have to provide extraordinary incentives or money for buyers to qualify for a loan or buy the home, the buyer is not truly willing and able. A seller may pay a percentage of the sales price to real estate brokers. Sales commissions are not considered an inducement, as long as the fee doesn't exceed the normal cost for such services in the area, according to the FHA Handbook. The seller may not pay an additional commission to the buyer's broker. Lenders compare the original listing agreement with the closing costs (settlement) statement to verify no inducements have occurred.

Read more: [FHA Mortgage Rules for the Seller's Contribution of Closing Costs | eHow.com](http://www.ehow.com/list_6735037_fha-seller_s-contribution-closing-costs.html#ixzz2AABvYIKu)  
[http://www.ehow.com/list\\_6735037\\_fha-seller\\_s-contribution-closing-costs.html#ixzz2AABvYIKu](http://www.ehow.com/list_6735037_fha-seller_s-contribution-closing-costs.html#ixzz2AABvYIKu)

### **Market Condition/Date of Sale**

Market condition adjustment is sometimes called the "time adjustment". It is an adjustment applied to a comparable sale to bring the sale "current", or into the same market conditions as the effective date of valuation or pricing of the subject property. For example, if the market has improved 5% from the date of the sale to the date of analysis, and this is evidenced by market activity (i.e. sale – resale activity), then a +5% adjustment would be applied to the comparable sale.

The goal is to utilize comparable sales that are considered "current", thus, no market condition adjustment would be required. In residential valuations, Fannie Mae recommends that an appraiser utilize a sale that occurred within 12 months; however, comments are required when utilizing any sale greater than six months.

Know that a good comparable should not be discarded due to the age of the sale, if it provides pertinent data necessary to accurately price/value the subject property. For appraisers, USPAP (Uniform Standards of Professional Appraisal Practice) actually requires that the appraiser analyze ALL information necessary for credible assignment results. If the user of the appraisal services requests a minimum of three sales that are less than a year, and the most comparable sale occurred over a year ago, the appraiser must consider this sale. It should be included as an additional sale, thereby complying with the user's request and complying with USPAP requirements to present a conclusion that is not misleading.

A "time" or market condition adjustment must be based on market data for the particular neighborhood and for competing locations, not on a pre-determined or assumed dollar adjustment.

## Locational and Physical Features

Locational and physical features are adjusted once the sale is considered to reflect a price in the current market. In the *Identification of the Subject* section, there were a variety of categories discussed. These categories include:

- Location characteristics
- Site specific characteristics
- Use
- Improvement details

Not only is identification of the subject features necessary, it is also necessary for each comparable. Should a comparable differ from the subject in a specific category, an adjustment may be necessary. The necessity of an adjustment is based upon analysis of the market, and extraction of an adjustment from market activity. Costs are not typically equivalent to value.

## Value/Price Conclusion

### Test of Comparability (net and gross adjustments)

After adjustment of each comparable for variances relative to the subject, the standard deviation, or range of adjusted values should be much narrower from that indicated by the sales price range prior to adjustment. This should occur in both in gross numbers and on a unit value basis.

There are three quantitative measures often utilized to review the comparability of the sales relative to the subject: line item adjustment, net adjustment, gross adjustment

Line Item Adjustment: A line item adjustment is the degree of adjustment of the comparable for a single element of comparison or category. This is related as a percentage adjustment.

Net Adjustment: The net adjustment is calculated by summing the individual positive and negative adjustments to derive the net impact of adjustments. The percentage is computed by dividing the summation by the price prior to adjustment.

Gross Adjustment: The gross adjustment is a summation of all adjustments, ignoring the direction of the adjustment. The percentage is computed by dividing the summation by the price prior to adjustment.

*For example:*

<b>Sales Price of Comparable</b>	<b>\$700,000</b>	<b>Line Item Percentage</b>
Site Adjustment	-\$170,000	-24.29%
Quality of Construction	+\$170,000	+24.29%
Living Area Adjustment	+15,000	+2.14%
Porch Adjustment	-\$5,000	-0.71%
<i>Net Adjustment</i>	<i>+\$10,000</i>	<i>+1.43%</i>
<i>Gross Adjustment</i>	<i>\$360,000</i>	<i>51.43%</i>
<b>Adjusted Sales Price of Comparable</b>	<b>\$710,000</b>	

Usually, the magnitude of net adjustments is a less reliable indicator of accuracy. It may be misleading because a significant amount of adjustments may be applied to relate a comparable to the subject; however, the net impact indicates little adjustment. The gross adjustment, however, would measure all of the adjustments, and may indicate a limited degree of reliability of a comparable.

A review of the net adjustment in the previously presented example indicates strong comparability, with a net adjustment of only 1.43% from the sales price to the adjusted value. The gross adjustment, however, indicates the significant degree of adjustment applied to the comparable relative to the subject. The comparable was adjusted over 50% for varying elements relative to the subject.

There are guidelines for measuring comparability; however, these are not rules. Limited sales data, or unique quality, condition, location, etc., may result in large adjustments to even the best chosen comparable sales. Typically, users of appraisal reports request discussion of any adjustments that far exceed desired parameters - in other words, a qualitative analysis beyond the quantitative analysis. The following parameters are often used by underwriters when reviewing appraisal reports, particularly single family residential reports (these are not requirements by Fannie Mae or Freddie Mac:

<b>Adjustment Category</b>	<b>Recommended User Range</b>
Line Item Adjustment	<10%
Net Adjustment	<15%
Gross Adjustment	<25%

In appraisal theory, the conclusion of a value is called “reconciliation”. This is not synonymous with averaging the adjusted sales prices to determine value. The process involves weighting the comparability of each sale, reviewing all of the data gathered in the valuation process, including listing data, market condition data, property specific data, etc., and forming an educated opinion of value. In a contract sales scenario, it is reasonable for an appraiser to conclude at contract price, if such a conclusion is within the range of reasonableness and the appraiser’s opinion is that such a price is consistent with the definition of market value.