

17 | Sales Comparison Analysis

SALES COMPARISON ANALYSIS

Uniform Residential Appraisal Report

File #

There are _____ comparable properties currently offered for sale in the subject neighborhood ranging in price from \$ _____ to \$ _____
 There are _____ comparable sales in the subject neighborhood within the past twelve months ranging in sale price from \$ _____ to \$ _____

FEATURE	SUBJECT	COMPARABLE SALE # 1			COMPARABLE SALE # 2			COMPARABLE SALE # 3					
Address													
Proximity to Subject													
Sale Price	\$ _____	\$ _____			\$ _____			\$ _____					
Sale Price/Gross Liv. Area	\$ _____ sq. ft.	\$ _____ sq. ft.			\$ _____ sq. ft.			\$ _____ sq. ft.					
Data Source(s)													
Verification Source(s)													
VALUE ADJUSTMENTS	DESCRIPTION	DESCRIPTION	+	-	\$ Adjustment	DESCRIPTION	+	-	\$ Adjustment	DESCRIPTION	+	-	\$ Adjustment
Sale or Financing Concessions													
Date of Sale/Time													
Location													
Leasehold/Fee Simple													
Site													
View													
Design (Style)													
Quality of Construction													
Actual Age													
Condition													
Above Grade	Total Bdrms. Baths	Total Bdrms. Baths				Total Bdrms. Baths				Total Bdrms. Baths			
Room Count													
Gross Living Area	sq. ft.	sq. ft.				sq. ft.				sq. ft.			
Basement & Finished Rooms Below Grade													
Functional Utility													
Heating/Cooling													
Energy Efficient Items													
Garage/Carport													
Porch/Patio/Deck													
Net Adjustment (Total)			+	-	\$		+	-	\$		+	-	\$
Adjusted Sale Price of Comparables		Net Adj. %				Net Adj. %				Net Adj. %			
		Gross Adj. %				Gross Adj. %				Gross Adj. %			
I <input type="checkbox"/> did <input type="checkbox"/> did not research the sale or transfer history of the subject property and comparable sales. If not, explain													
My research <input type="checkbox"/> did <input type="checkbox"/> did not reveal any prior sales or transfers of the subject property for the three years prior to the effective date of this appraisal.													
Data source(s)													
My research <input type="checkbox"/> did <input type="checkbox"/> did not reveal any prior sales or transfers of the comparable sales for the year prior to the date of sale of the comparable sale.													
Data source(s)													
Report the results of the research and analysis of the prior sale or transfer history of the subject property and comparable sales (report additional prior sales on page 3).													
ITEM	SUBJECT	COMPARABLE SALE # 1			COMPARABLE SALE # 2			COMPARABLE SALE # 3					
Date of Prior Sale/Transfer													
Price of Prior Sale/Transfer													
Data Source(s)													
Effective Date of Data Source(s)													
Analysis of prior sale or transfer history of the subject property and comparable sales													
Summary of Sales Comparison Approach													
Indicated Value by Sales Comparison Approach \$ _____													
Indicated Value by: Sales Comparison Approach \$ _____ Cost Approach (if developed) \$ _____ Income Approach (if developed) \$ _____													
This appraisal is made <input type="checkbox"/> "as is", <input type="checkbox"/> subject to completion per plans and specifications on the basis of a hypothetical condition that the improvements have been completed, <input type="checkbox"/> subject to the following repairs or alterations on the basis of a hypothetical condition that the repairs or alterations have been completed, or <input type="checkbox"/> subject to the following required inspection based on the extraordinary assumption that the condition or deficiency does not require alteration or repair:													
Based on a complete visual inspection of the interior and exterior areas of the subject property, defined scope of work, statement of assumptions and limiting conditions, and appraiser's certification, my (our) opinion of the market value, as defined, of the real property that is the subject of this report is \$ _____, as of _____, which is the date of inspection and the effective date of this appraisal.													

SALE PRICES AND PRICE/GROSS LIVING AREA

FEATURE	SUBJECT	COMPARABLE SALE # 1	COMPARABLE SALE # 2	COMPARABLE SALE # 3
Address				
Proximity to Subject				
Sales Price	\$	\$	\$	\$
Price/Gross Liv. Area	\$	\$	\$	\$
Data Source(s)				
Verification Source(s)				

Underwriting Considerations

- 1 Are the sales prices of the comparables within the neighborhood price range as defined on page 1 of the report [One-Unit Housing]?
 - 2 Are the sales prices of the comparables within the neighborhood price range as reflected in the comparable listings/sales range on the top of page 2 of the report?
 - 3 Is the subject's Price/Gross Liv. Area per square foot bracketed by the comparable sales' square foot prices?
 - 4 Is the subject's final value per Price/Gross Liv. Area bracketed by the comparable sales' square foot price?
 - 5 Is the subject's final value per Price/Gross Liv. Area bracketed by the adjusted sale price per square foot for each of comparable sales?
-
-
-
-
-
-
-
-

Reviewer Action

- 1 If not, scan the report for comments and explanations related to the circumstance. If not and the reason for the variance is not adequately explained elsewhere in the report, the appraiser should be contacted for clarification.
- 2 It is reasonable to assume that the prices of the comparables will reside in the same range as the prices of comparable listings and sold units in the neighborhood. If not and the reason for the variance is not adequately explained elsewhere in the report, the appraiser should be contacted for clarification.
- 3 If the transaction is a sale, the Price/Gross Liv. Area for the subject should be bracketed by the square foot price of the comparables.
- 4 If the transaction is a refinance, divide the final value estimate for the subject by the subject's GLA and compare the result to the Price/Gross Liv. Area of the comparables. If not bracketed, the sales comparison grid should be carefully examined for inappropriate adjustments that affect the value of the subject. A clarification from the appraiser may be necessary.
- 5 Divide the adjusted sale prices (bottom of sales comparison grid) of each comparable by its GLA to obtain the adjusted Price/Gross Liv. Area. Compare to the Price/Gross Liv. Area and the Price/Gross Liv. Area of the subject. The latter should still lie within the range of the adjusted square foot price of the comparables.

Inappropriate Entry(ies)

- 1 2 The absence of entries

Common Error(s)

- 1 The appraiser will use the listed price instead of sold price, either inadvertently or intentionally.
- 1 2 The appraiser will locate the comparables in a database (MLS) by entering a range of prices instead of entering a range of property characteristics.
- 4 The sale price per square foot will be bracketed by the comparables' square foot price, but the final value opinion for the subject will not be bracketed.

Client's Responsibility(ies)

- 1 2 The appraiser should be advised, prior to engagement, about any special requirements in the selection of comparable sales. It is not productive for the reviewer to ask for "better comparables". The appraiser selected what he or she believes were the best comparables or the only ones available when

completing the report. Instead, the reviewer should ask for “additional comps” to help support the ones originally submitted.

Related Areas of the Report

- 1 One-Unit Housing on page 1
- 4 The final value opinion for the subject

Fannie Mae Guidance for Lenders and Appraisers

- 1 The sales price of each comparable sale should be within the general range of the appraiser's opinion of market value for the subject property.

USPAP Implications

None specifically noted

Federally Related Transactions

None specifically noted

Quality Control (Audit)

None specifically noted

Discussion

If the appraiser enters a range of prices as the search criteria in MLS (or any database of sales) to find comparables, the value of the subject will be bracketed in that price range. If sold properties similar to the subject are outside of the price range entered, those sales will not be included in the evaluation process. However, this is a common technique used by appraisers; not necessarily to obtain a predetermined value, but because it is a more convenient and quick way to locate sales. The only way to isolate this activity is the review of sales and/or listings available on the report date of the appraisal. The correct method of selection is using a set of search perimeters based upon the location and physical attributes of the subject property.

The URAR requests an entry for the gross price per square foot including the land for the subject and the comparables. This is not a cost/value per square foot of the improvements. It is a unit of comparison for the reviewer or underwriter to see if the sales represent a realistic price range clustered around the subject's value/price. It is assumed that the designers of the form felt that the subject's contract price would be comparable to the appraised value. If the transaction is a refinance, or if the price and value differ greatly, the reviewer should compare the final value per GLA of the subject to the gross price per square foot of the comparables.

Differences between the subject and the comparable that require large single adjustments are the most predominant reason for the price per GLA not being properly aligned. These differences would include excess/surplus land, pools, additional buildings, and below grade finished living area. If these characteristics are present, the reviewer should do one of two things:

1. Question the selection of the sales if no explanation is offered by the appraiser.
2. Remove these items from the comparable's sale price (mathematically) to obtain a realistic comparison.

☑ Quick Check 7-3 [Price & Price/Gross Liv. Area]

1. The "Price/Gross Liv. Area" box was designed for:
 - (a) setting the limits for the cost per square foot for the subject.
 - (b) making the comparison between subject's final value estimate (and/or price) and the sale prices of the comparables easier by using a smaller common denominator that also includes the value relationship of land and improvements.
 - (c) estimating the value per square foot of the improvements in the subject's market.
2. The "Price/Gross Liv. Area" is obtained by which of the following:
 - (a) [Comparable Sale Price ÷ GLA = Price/Gross Liv. Area]
 - (b) [(Comparable Sale Price – land value) ÷ GLA = Price/Gross Liv. Area]
 - (c) [(Comparable Sale Price – improvement value) ÷ GLA = Price/Gross Liv. Area]

Notes:

DATE OF SALES/TIME

FEATURE	SUBJECT	COMPARABLE SALE # 1		COMPARABLE SALE # 2		COMPARABLE SALE # 3	
VALUE ADJUSTMENTS	DESCRIPTION	DESCRIPTION	± Adj	DESCRIPTION	± Adj	DESCRIPTION	± Adj
Sales or Financing							
Concessions							
Date of Sales/Time							

Underwriting Considerations	Reviewer Action
<p>1 Are the dates of sale within an acceptable range?</p> <p>2 Has there been a positive or negative adjustment for the time of sale?</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p>	<p>1 Assess the appropriateness of sale dates based on internal and/or investor policies.</p> <p>2 Review the remainder of the report for remarks about increasing or decreasing values, shortages and short marketing times. If such remarks do not exist, request clarification.</p> <p>2 If subject is new construction, review prior reports for existing properties in the subject's area or competing areas to see if appraiser applied similar adjustments for time of sale.</p>

Inappropriate Entry(ies)

- 1 The absence of entries for date of sale

Common Error(s)

- 2 Positive adjustments for time of sale on new construction are often entered because of raising building costs and comparable improvements are so similar that adjustments cannot be made in other locations.

Client's Responsibility(ies)

- 2 The client should provide their specific requirements for date of sale, if any.

Related Areas of Report

- 1 The number of current listings and sales as shown on the top of page 2
- 2 Sales histories of the subject and comparables

Fannie Mae Guidance for Lenders and Appraisers

- 1 The appraiser should use comparable sales that have been settled or closed within the past 12 months. However, the appraiser may use older comparable sales if he or she believes that they are appropriate, and selects comparable sales that are the best indicators of value for the subject property. The appraiser must comment on the reasons for using any comparable sales that are more than six months old.
- 2 Time adjustments must be representative of the market and should be supported by the comparable sales whenever possible. The adjustments must reflect the time that elapsed between the contract date (or the date of the "meeting of the minds") for the comparable sale and the effective date of the appraisal for the subject property.

USPAP Implications

None specifically noted

Federally Related Transactions

None specifically noted

Quality Control (Audit)

None specifically noted

Discussion

Many appraisers, reviewers and underwriters believe that the USPAP, Interagency Guidelines or prudent appraisal principles dictate when the sale date is acceptable. Typically, most clients and appraisers believe the sale date cannot be greater than 6 months or 1 year. The USPAP, lenders regulations and general appraisal principles do not dictate a cut-off date for an acceptable date of sale. Fannie Mae guidelines do include suggested limitations on the comparables' dates of sale.

A positive adjustment for time of sale indicates that market values are rising. Such adjustments need to be supported by the other sections in the report. The adjustments should not be more for new construction than existing. The reviewer needs to rely upon information gleaned from other appraisals about the market conditions in the subject's location.

The sale history of the subject and the comparables may assist in the assessment of a time adjustment. If they have sold during the past twelve months a resale would give an indication of any increase in value during that period.

Quick Check 7-6 [Date of Sale]

1. The neighborhood section of a report has been completed as shown below. Which of the following would be a logical conclusion?

One-Unit Housing Trends			
Property Values	<input type="checkbox"/> Increasing	<input checked="" type="checkbox"/> Stable	<input type="checkbox"/> Declining
Demand/Supply	<input type="checkbox"/> Shortage	<input checked="" type="checkbox"/> In Balance	<input type="checkbox"/> Oversupply
Marketing Time	<input type="checkbox"/> Under 3 mths	<input checked="" type="checkbox"/> 3-6 mths	<input type="checkbox"/> Over 6 mths

- (a) A time adjustment is needed for a sale occurring 8 months before the value date.
- (b) The time adjustment will be less than 1% for a sale occurring 8 months before the value date.
- (c) A time adjustment is probably not needed for a sale occurring 8 months before the value date.
- (d) Only sales occurring during the past 3 months should be adjusted for the date of sale.
2. A time adjustment represents which of the following?
- (a) An adjustment for any change in the market between the comparable's date of sale and the date of value.
- (b) An adjustment for any change in the market between the comparable's date of sale and the date of the appraisal report.
- (c) An adjustment for appreciation that occurred between the comparable's date of sale and the date of value.
- (d) An adjustment for the physical changes of the comparable that occurred between the comparable's date of sale and the date of value.

Notes:

SITE

FEATURE	SUBJECT	COMPARABLE SALE # 1	COMPARABLE SALE # 2	COMPARABLE SALE # 3			
VALUE ADJUSTMENTS	DESCRIPTION	DESCRIPTION	± Adj	DESCRIPTION	± Adj	DESCRIPTION	± Adj
Location							
Leasehold/Fee Simple							
Site							
View							

Underwriting Considerations	Reviewer Action
<p>1 Are the site adjustments consistent?</p> <p>2 Is a description of the site characteristics given, such as "100 x 120", "larger" or "corner"?</p> <p>_____</p> <p>_____</p> <p>_____</p>	<p>1 Check for double adjustments. If it appears that the appraiser has adjusted for site value under "Location" and then made a second adjustment under "Site" and/or "View" for the same characteristic, the entries should be questioned.</p> <p>2 Compare the size and quality¹⁴ of the comparable sites to each other to see if adjustments are consistent.</p>

Inappropriate Entry(ies)

- 1** Superior, inferior or better as description for the comparable's location

Common Error(s)

- 1** Making multiple adjustments under "Location", "Site", and/or "View" for the site value

Client's Responsibility(ies)

- 1** **2** Inform the appraiser prior to assignments and on an on-going basis of the specific guidelines and procedures of the client.
- 1** The client should consider requiring an estimate of site value to provide the additional information needed to review the report.

Related Areas of the Report

- 1** Subject's site value in the Cost Approach
- 1** Location adjustment in the sales comparison grid
- 1** View adjustment in the sales comparison grid

Fannie Mae Guidance for Lenders and Appraisers

- 1** If the report includes the Cost Approach, a separate site value is required. Fannie Mae does not require the Cost Approach to value except for the valuation of manufactured homes. At one time, the site value was required without reference to the Cost Approach.

USPAP Implications

- 1** "(b) not commit a substantial error of omission or commission that significantly affects an appraisal; and
Comment: An appraiser must use sufficient care to avoid errors that would significantly affect his or her opinions and conclusions. Diligence is required to identify and analyze the factors, conditions, data, and other information that would have a significant effect on the credibility of the assignment results.

(c) not render appraisal services in a careless or negligent manner, such as by making a series of errors that, although individually might not significantly affect the results of an appraisal, in the aggregate affects the credibility of those results."

Federally Related Transactions

None specifically noted

¹⁴ Quality in this context includes several factors such as utilities, location, and topography.

Quality Control (Audit)

None specifically noted

DiscussionAdjustment Composition and Limitations:

This adjustment represents the dollar difference between the subject's site value and the comparable's site value.

Though often not readily apparent, there are two components to the adjustments made on this line. The two components are land size and land quality. Unfortunately, the quality adjustment is a composite of on-site factors such topography, view, utilities, waterfront as well as off-site factors attributed to location.

If the subject or the comparable's improvements suffers from external obsolescence, the respective site value shares in the loss created by the external influence. **Though a site adjustment should not be included on the Location line, the existence of an adjustment on the Location line could indicate that the subject site is affected by adverse external factors.**

Suggested Procedure:

The suggested method for obtaining the adjustment uses the following steps.

1. The appraiser values the subject site using the comparable sales approach for land.
2. The appraiser values the comparable's site using the comparable sales approach for land.
3. The appraiser determines the difference between the two site values and enters that number as the adjustment for Site. This process is illustrated by the following formula:

$$\begin{array}{r} \text{Subject's Estimate of Site Value} \\ [-] \text{Comparable's Site Value} \\ [=] \text{Amount of Adjustment} \end{array}$$

For review purposes, the land value for the comparable can be extracted from the comparables' sale prices. Each of the comparables' land values can be obtained by comparing the value of the subject site (provided in the report) to the adjustments in the site box of the comparable. The following word formula illustrates the process for extraction of the comparable's land value during the review process.¹⁵

$$\begin{array}{r} \text{Subject's Estimate of Site Value (from Cost Approach)} \\ [\pm] \text{Adjustment on the Site Line (available during a review)} \\ [=] \text{Comparable's Site Value} \end{array}$$

If the adjustment to the comparable is negative, add the adjustment amount to the subject's site value estimate. If the adjustment is positive, subtract it from the subject's site value estimate. A site/property value ratio¹⁶ can be developed from the comparables and compared to the ratio of all comparables as well as the subject's ratio. The ratio should be reasonably consistent between the subject and the comparables.

Other Locations in the Sales Comparison Grid to be Considered:

- The Location line on the sales comparison grid
- The View line on the sales comparison grid
- The amount (or existence) of external depreciation for the subject entered in the Cost Approach

Caveats:

The appraiser should not try to adjust for size and quality of land in the same procedure. It is possible that the sites sell "per lot" and the size is not a consideration. If the market indicates that size is considered, then the selling unit must be determined (i.e. square foot, front foot). The price/value of the selling unit will reflect the quality of each site. The unit of value is applied to the site's size to obtain the value of the site.

¹⁵ During a review of a report, the reviewer can also use these calculations to validate the subject's or the comparable's site value.

¹⁶ Site Value ÷ Property Value/Price = % of Site Value

Typical Errors:

The appraiser will try to adjust for the quality of the site under "Location" and/or "View" and then attempt to adjust for size on the Site line. This method is not realistic and tends to create duplicate or unidentified adjustments. If the suggested method of obtaining the Location adjustment as illustrated in this Guide is used, duplication is less likely to occur.

The appraiser will adjust for the difference in site value on the Location line and then adjust the value again on the Site and/or View line.

The appraiser will make multiple adjustments for the same variable. Typically the appraiser will make additional adjustments on one or more of the following lines:

- The Location line on the sales comparison grid
- The View line on the sales comparison grid

Often, this inflates the adjusted value of the comparable (and subsequently the value of the subject), particularly if the appraiser perceives the subject site has a better view, is larger and in a superior location.

Reviewers will cite the appraiser for making an adjustment when the sizes of the lots are the same. Often reviewers do not consider the possibility that the lots have different values for reasons other than size.

Rationale for the Method:

If the Site line is used for total land value variances only, duplication of adjustments can be avoided. If the comparable's site and the subject's site are valued separately and then compared, the adjustment is much simpler and less prone to error.

Estimating the value of the subject site and the value of the comparable site is easier than trying to divide the variables into sub-parts and placing adjustments for the same physical component on different lines in the sales comparison grid.

Quick Check 7-8 [Site Adjustments]

1. **The adjustment on the Site line of the sales comparison grid represents:**
 - (a) The difference between the subject's and the comparable's site values created by the site sizes.
 - (b) The difference between the subject's and the comparable's site values created by the value per square foot of each.
 - (c) The difference between the subject's and the comparable's site values created by the size, view and location of each.
 - (d) The difference between the subject's site value and the comparable's site value
2. **Which of the following is an *inappropriate* line to make an adjustment for site value for a single-family detached dwelling with the site owned in fee simple?**
 - (a) The Location line in the sales comparison grid
 - (b) The View line in the sales comparison grid
 - (c) The Functional Utility line in the sales comparison grid
 - (d) All of the above

VIEW

FEATURE	SUBJECT	COMPARABLE SALE # 1		COMPARABLE SALE # 2		COMPARABLE SALE # 3	
VALUE ADJUSTMENTS	DESCRIPTION	DESCRIPTION	± Adj	DESCRIPTION	± Adj	DESCRIPTION	± Adj
Location							
Leasehold/Fee Simple							
Site							
View							

Underwriting Considerations	Reviewer Action
<p>1 Is there an adjustment for View?</p> <p>_____</p> <p>_____</p>	<p>1 If the property is a single-family detached dwelling on a fee simple ownership, it is not likely that an adjustment for View is justified. Review the remainder of the grid to determine if this adjustment is a duplicate of the site adjustment.</p>

Inappropriate Entry(ies)

- 1** Superior, inferior or better as a description

Common Error(s)

- 1** Making multiple adjustments under "Location", "Site", and/or "View" for the site value
- 1** Making an adjustment on the View line for an increase or decrease in improvement value or site value when the ownership of the site is fee simple

Client's Responsibility(ies)

- 1** The client should consider requiring an estimate of site value to provide the additional information needed to review the report.

Related Areas of the Report

- 1** Subject's site value in the Cost Approach
- 1** Location adjustment in the sales comparison grid

Fannie Mae Guidelines

None specifically noted

USPAP Implications

None specifically noted

Federally Related Transactions

None specifically noted

Quality Control (Audit)

None specifically noted

Discussion

If the site is owned in fee simple, the View adjustment should be made on the Site line. This adjustment is founded in the fact that the site has the view, not the improvements. This is true for single-family detached housing. It is reasonable to conclude that the value created by a view contributes only to the site value, if the site is owned in fee simple.

For example, if the subject dwelling is the end unit of a row of attached dwellings on zero lot lines (fee ownership), it is possible that the unit has a better view than others. The end unit could have more windows and/or a view of the water/mountains; however, the land under the unit controls access to the view – not the improvements. The end lot would be worth more, adding to the value of the property. If the project was a condominium or a co-op, then the view might contribute to the value of the improvements, because the land is owned in an undivided estate. The controlling factor is the method of ownership of the land.

There is always the unsupported argument that a tall building or a building with the correct origination creates the view. However, the view is not available if the site does not have access to the view. Obviously, a site with a view from a one-story building has the potential for a greater value than a site

requiring a 3-story building to obtain a view. There are sites where a view cannot be obtained, regardless of the improvement's design.

Ultimately, the view contributes value to the property. However, if the appraiser is not careful, the value contributed by the view will be added to both the improvements and the site, inflating or deflating the value of the subject.

Quick Check 7-9 [View Adjustments]

1. **If appropriately applied, an adjustment on the View line in the sales comparison grid represents:**
 - (a) an adjustment for the difference between the site values of the subject and the comparable.
 - (b) an adjustment for the difference between the value of the improvements of the subject and the comparable.
2. **Assuming the View line is not the appropriate line to make an adjustment for site value variances, which of the following circumstances would be the most likely to create the need to make an adjustment for View?**
 - (a) The subject dwelling is located in a multi-unit complex where each dwelling unit owns an undivided interest in the land.
 - (b) When the view is superior to the other comparable single-family detached dwellings in the neighborhood.
 - (c) When the view is inferior to the other comparable single-family detached dwellings in the neighborhood.
 - (d) All of the above
3. **What is the likelihood of a View adjustment being justified on the URAR if the subject and comparables are detached dwellings located on sites with fee simple ownerships?**
 - (a) High
 - (b) Low
 - (c) Moderate
 - (d) Never

Notes:

QUALITY OF CONSTRUCTION

FEATURE	SUBJECT	COMPARABLE SALE #1	COMPARABLE SALE #2	COMPARABLE SALE #3			
VALUE ADJUSTMENTS	DESCRIPTION	DESCRIPTION	± Adj	DESCRIPTION	± Adj	DESCRIPTION	± Adj
Design (style)							
Quality of Construction							
Actual Age							
Condition							

Underwriting Considerations	Reviewer Action
<p>1 Are there adjustments for Quality of Construction?</p> <p>2 Are the adjustments for quality for both materials and workmanship?</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p> <p>_____</p>	<p>1 The reviewer needs to scan the report for explanations for the adjustment. If no explanation is given and the adjustment is significant, request clarification from appraiser. If the adjustment is large (%) as compared to other adjustments, the suitability of the sale should be questioned.</p> <p>1 2 Adjustments should be related to the value of the improvements only, not the sale price of the comparable which includes land value. For example, there is a 5% adjustment for quality, the comparable's sale price was \$100,000 and the quality adjustment is \$5,000. It is obvious that the 5% was applied to the land as well as the building.</p> <p>2 Check the report to see if the appraiser construed the presence of a few amenities such as brick siding, bath fixtures or flooring type as overall quality.</p>

Inappropriate Entry(ies)

- 1** A descriptive term instead of superior or inferior is more beneficial to the reader.

Common Error(s)

- 1 2** Making duplicate adjustments for the same variable under both "Design" and "Quality".
- 1 2** Application of a percentage to the sale price to adjust for quality is an incorrect procedure. Quality is related to the improvements only.
- 1 2** Making adjustments for quality when the variances are actually just amenities.
- 1 2** Adjusting for the quality of the entire structure because the exterior is brick veneer.

Client's Responsibility(ies)

- 1** The appraiser should be advised that positive adjustments for quality are hard to prove and if used, they must be supported by plausible explanations.

Related Areas in the Report

- 1 2** Functional obsolescence in the Cost Approach
- 1 2** Comments at the bottom of page 1 of the report
- 1 2** Photographs and Improvement Sketch attachments

Fannie Mae Guidance for Lenders and Appraisers

- 1** Functional depreciation, traditionally referred to as functional obsolescence, is a loss in value that is caused by:
- defects in the design of the structure, such as inadequacies in such items as architecture, floor plan, or sizes and types of rooms
 - changes in market preferences that result in some aspect of the improvements being considered obsolete by current standards, such as the location of a bedroom on a level with no bathroom, or access to a bedroom only through another bedroom

USPAP Implications

None specifically noted

Federally Related Transactions

None specifically noted

Quality Control (Audit)

None specifically noted

Discussion on Quality of Construction

The quality adjustment should consider at least one or two items, or more commonly, a combination of both:

Quality of Workmanship

Quality of Materials

Adjustment Composition and Limitations:

The adjustment includes consideration for the variances in the quality of either materials or workmanship, or both.

Suggested Procedure:

Identify the variances first before applying any adjustment. If the quality variance is only one of the construction components of materials or workmanship, it is questionable if an adjustment should be made on the Quality line.

Cost can be one measure of adjustment. However, if the variances create an over-improvement, cost may not be reliable as an adjustment tool.

If the quality component is an amenity such as a whirlpool tub, the adjustment would represent the difference between a typical tub and the whirlpool. It is more appropriate to place those adjustments in the "Other" box at the bottom of the grid.

If the quality component is workmanship, it will be spread throughout the structure. If adjusting for overall workmanship and/or materials, the adjustments should be related to the square footage of the improvements.

Caveats:

If quality materials are incorporated with a lesser quality workmanship, it is doubtful the improvements will benefit in value proportionally to the cost of the materials. An improvement with compatible materials and workmanship may be more appealing to buyers and command as much or more with a lesser cost for materials.

Avoid adjusting for the quality of a few amenities on the Quality line. A few items of quality are more appropriately addressed in another location in the grid. Typically, these items are not quality variances and probably could be classified as extras.

Typical Errors:

The appraiser's assessment of the level of quality is unduly influenced by a few items of perceived quality or uniqueness.

Adjusting on this line for a single item or collection of items that do not constitute an overall quality of construction and materials is not appropriate.

Adjustments are often made by applying a percentage to the sale price (which includes the value of the land) of the comparable, but quality used in this context only applies to the improvements.

One common and questionable adjustment is for brick vs. frame siding. Brick is an amenity comparable to other quality amenities such as a shake roof. The sole presence of brick siding or a wood-shake roof does not indicate that the entire structure has superior quality. If an adjustment on the quality line reflects only the contributory value of the extra, then the final value will probably not be influenced. However, it may be difficult for the reviewer to tell if the appraiser is making the proper adjustment.

Quick Check 7-11 [Quality of Construction]

1. **What is the likelihood that an adjustment will be necessary for Quality of Construction if the comparables are physically similar to the subject property?**
 - (a) High
 - (b) Moderate
 - (c) Low
 - (d) Never

2. **What is the most common error(s) made on the Quality of Construction line?**
 - (a) The adjustment is made for the existence of a single or a few upscale amenities rather than the overall quality of construction and materials.
 - (b) The adjustment is made for the quality of the materials when the quality of workmanship is not consistent with the installed materials, negating the favorable influence of the materials.
 - (c) Entries for this variable are too infrequent with the appraiser often overlooking quality of construction as a major contributor of value.
 - (d) (a) and (b)

3. **The comparable is very similar to the subject but it has an excellent grade of carpet. The subject property has a much lower grade of carpet. The market indicates that the typical buyer would pay \$1,500 more for the quality carpet. Where would be the most appropriate place to enter the \$1,500 adjustment and is it a positive or negative adjustment?**
 - (a) On the Design(Style) line and a negative adjustment
 - (b) On the Quality of Construction line and a positive adjustment
 - (c) In a empty description line in the sales comparison grid and a negative adjustment
 - (d) No adjustment is necessary since cost is not necessarily an indication of contributory value

ACTUAL AGE

FEATURE	SUBJECT	COMPARABLE SALE # 1		COMPARABLE SALE # 2		COMPARABLE SALE # 3	
VALUE ADJUSTMENTS	DESCRIPTION	DESCRIPTION	± Adj	DESCRIPTION	± Adj	DESCRIPTION	± Adj
Design (style)							
Quality of Construction							
Actual Age							
Condition							

Underwriting Considerations

- 1 Are the adjustments for age consistent for all comparables?
 - 2 Is the age of the subject property bracketed by the ages of the comparables?
 - 3 Do the ages of the comparables lie within the neighborhood age range entered on page 1?
 - 4 Are the adjustments related to the value of the improvements only?
 - 5 Are the adjustments related to the actual age, not effective age?
-
-
-
-
-
-
-
-

Reviewer Action

- 1 Mathematically check the amount of adjustment per year for each of the comparables. ((Comparable sale price – site value) ÷ number of years of age difference between subject and comparable)
- 2 The subject's age should lie within, or close to, the range of the comparables' ages. If it does not, additional attention should be paid to the comparables selected.
- 3 The subject's age and the comparables' ages should lie within the neighborhood age range. If they do not, additional attention should be paid to the comparables selected.
- 4 This adjustment applies only to the improvements. Review the adjustments to see if they represent a percentage of the sale price. If so, they are not appropriate.
- 5 On previous URAR forms, the label was different on this line. Appraisers often used this line to adjust for effective age. If the adjustments are not consistent per year between the comparables and to the subject, there is the possibility the appraiser is adjusting for effective age (which is a condition adjustment). Compare the actual age adjustments to the condition adjustment to isolate any multiple adjustments for the same variable.

Inappropriate Entry(ies)

- 1 No entry in the description column

Common Error(s)

- 1 Making duplicate adjustments for the same item under both "Condition" and "Actual Age"

Client's Responsibility(ies)

- 1-5 Provide guidelines to expectations for this adjustment

Related Areas of Report

- 1 Photographs and Improvement Sketch Attachments
- 3 Age range of neighborhood on page 1
- 4 Physical depreciation in the Cost Approach
- 4 Condition adjustment in the sales comparison grid
- 4 Comments at the bottom of page 1 of the URAR

Fannie Mae Guidance for Lenders and Appraisers

- ① Fannie Mae does not place a restriction on the actual age of the dwellings. Older dwellings that meet Fannie Mae's general requirements are acceptable. Improvements for all properties must be of the quality and condition that will be acceptable to typical purchasers in the subject market area.

The relationship between the actual and effective age of a property is good indication of its condition.

- A property that has been well maintained generally will have an effective age that is somewhat lower than its actual age.
- A property that has an effective age higher than its actual age probably has not been well maintained or may have a particular physical problem.

USPAP Implications

None specifically noted

Federally Related Transactions

None specifically noted

Quality Control (Audit)

None specifically noted

Discussion

Earlier versions of the form asked for "Age" on this line. The most recent form asks for "Actual Age". Appraisers still attempt to use the line for effective age (condition) adjustments which was common practice in the earlier version.

The most recent URAR form does not provide a location to enter the effective age of the comparables. An effective age is requested for the subject and it is assumed the criteria for selecting comparables will include an effective age comparable to the subject.

Actual age is directly related to the deterioration of long-lived items in the structure such as foundation and framing. These components of a home do not depreciate rapidly unless other deferred maintenance allows atypical damage (such as a leaky roof or termites).

These long-lived items should depreciate (or deteriorate) at about the same amount per year in similar type construction; therefore, the adjustment amount per year would be smaller for actual age than an adjustment for a significant condition issue.

Adjustment Composition and Limitations:

Adjustments should be tied to the value of the improvements only, not the sale price of the comparable, which includes land value. For example, a 10% adjustment is made for actual age, the comparable's sale price was \$100,000 and the age adjustment is \$10,000. It is obvious that the appraiser applied the 10% to the land as well as the building.

This is an adjustment for the difference in the chronological age created by deterioration of long-lived construction components.

This adjustment does not include consideration of a newer design or quality of construction; those items are addressed on a different line in the sales comparison grid.

Actual age adjustments would be limited to variances in the long-lived incurable components of the improvements only (between the subject and the comparable).

Adjustments made for actual age would not include short-lived incurable and curable physical depreciation. The actual age adjustments would be for the physical depreciation in long-lived items such as studs, foundation, rafters and joists. The condition of these items in similar homes is reasonably consistent regardless of their age.

Suggested Procedure:

The adjustment per annum should be equal to or less than straight-line depreciation, because long-lived items usually last for the entire life of an improvement. Compare the actual age of the subject to the actual age of the comparable, and then apply a percentage per each year of age difference. This percentage can be extracted from market samples of different ages or from the comparables.

The appraiser should use a percentage per year that closely resembles straight-line depreciation. A reviewer can develop a benchmark for this adjustment using the following formula:

$$\begin{aligned} & 1.00 \text{ (represents 100\% Life of the Comparable)} \\ [\div] & \text{ Total Economic Life of Comparable Property} \\ [=] & \text{ Straight-Line Depreciation estimate per year} \end{aligned}$$

The adjustment per annum should resemble the straight-line depreciation, because long-lived items typically last for the entire economic life of an improvement.

If the actual age adjustment is abstracted from the market, the samples should not suffer from excessive incurable or curable depreciation or from any type of obsolescence.

Caveats:

The percentage adjustment per year for long-lived items will be almost identical for each comparable regardless of their condition. However, the total adjustment will be affected by the improvement value of the comparable.

This adjustment is generally small, both on an annual basis and as a total adjustment. If the actual ages of the subject and comparable are too distant, the adjustment can easily become unrealistic.

Functional and external obsolescence should not be treated in this box.

As the age of structures increase, the amount of the adjustment per year typically decreases. For example, the annual adjustment between a 1-year old subject and a 4-year old comparable is expected to be greater than the adjustment between a 30-year old subject and a 33-year old comparable. At some point, the actual age adjustment may not be applicable. However, if the ages are reasonable close, the amount of adjustment is not large enough to significantly impact the value estimate.

Typical Errors:

The annual percentage or amount derived by the appraiser is applied to the sale price of the comparable, not the improvement value.

Adjustments are made on the Age line and then repeated under Condition, creating a duplicate adjustment.

Dwellings built during a span of time have distinct characteristic. When dwellings built in a different time frame are compared, the designs and utilities are often different. These characteristics often encourage appraisers to make inappropriate adjustments on the Age line for differences in Design and Utility then duplicate the adjustments on the appropriate line of the sales comparison grid.

Notes:

Quick Check 7-12 [Age Adjustments]

1. The subject's actual age is 75 years and the comparable's age is 80 years. Which of the following is the most likely adjustment for actual age?
 - (a) 5% of the improvement value
 - (b) 10% of the comparable's sale price
 - (c) More than 5%
 - (d) 0%

2. The adjustment for actual age in this market and in this price range is 1% per year. The subject's site value is \$20,000. The site values for the comparables are the same as the subject's. Which adjustment is absolutely incorrect?

FEATURE	SUBJECT	COMPARABLE SALE #1		COMPARABLE SALE #2		COMPARABLE SALE #3	
Sales Price	\$ Refinance		\$100,000		\$96,000		\$104,000
Actual Age	25 years	30 years	+4,000	25 years	0	30 years	+ 5,200

- (a) # 1
- (b) # 2
- (c) # 3
- (d) None, all are correct

Notes: