

Real Estate Appraisals **NOT for lenders!**

**Northern California Chapter
Appraisal Institute**

March 11, 2024

Non-Lending Appraisals:

- Estates, Gifting, Casualty Loss, Donation
- Family Law (Divorce)
- Eminent Domain/Right of Way
- Diminution in Market Value
- Relocation
- Bankruptcy
- Tax Appeal

In case you missed it...

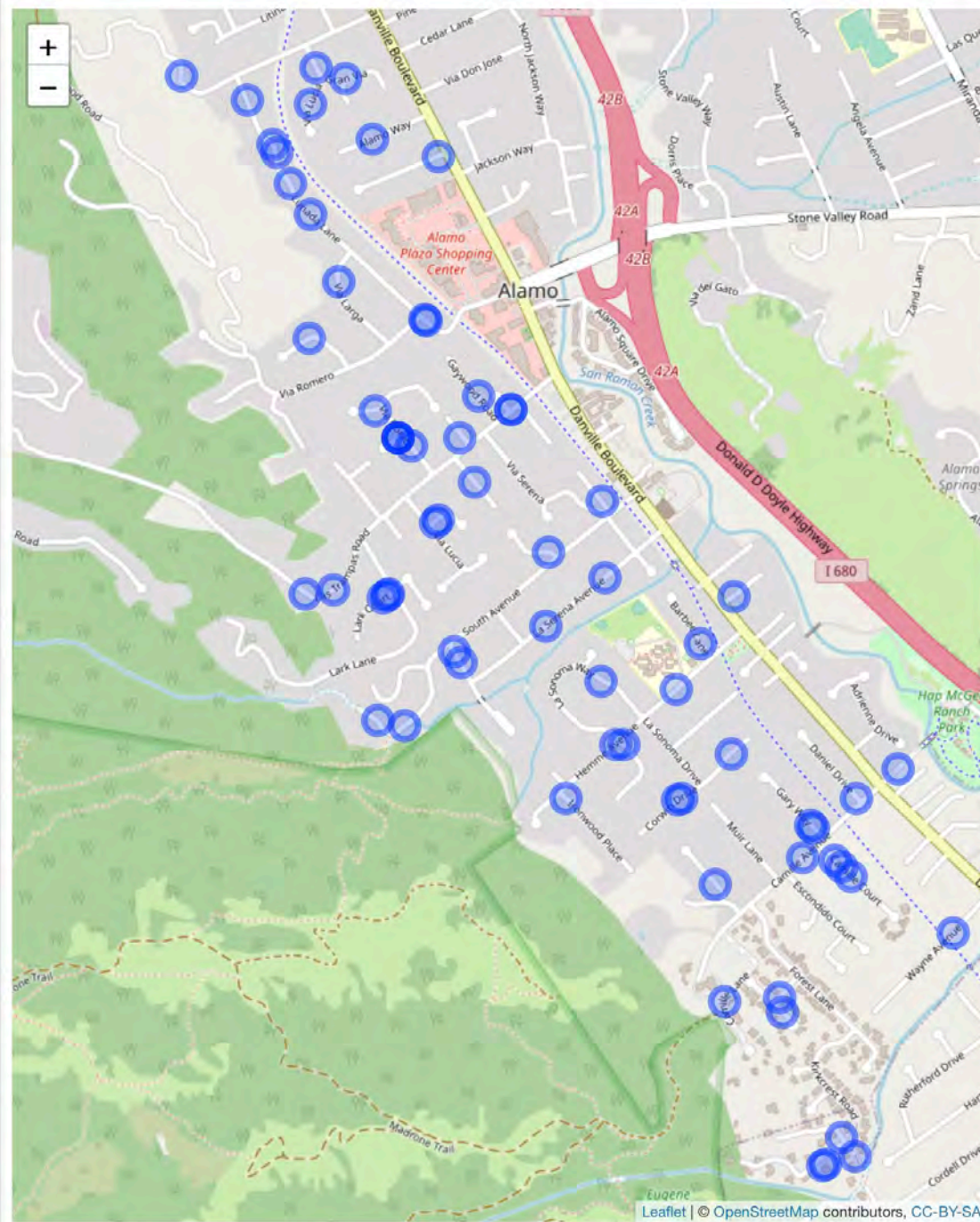
Fannie & Freddie are moving away from the URAR to hybrid/desktop appraisals. They may use a “**Dashboard**” instead of a form report.

They may just use AVMs!

Interest rates hit a 40 year bottom, reversed direction, and have begun a long term trend that ARE increasing.

Westside Alamo Market

Competitive Market Segment Map

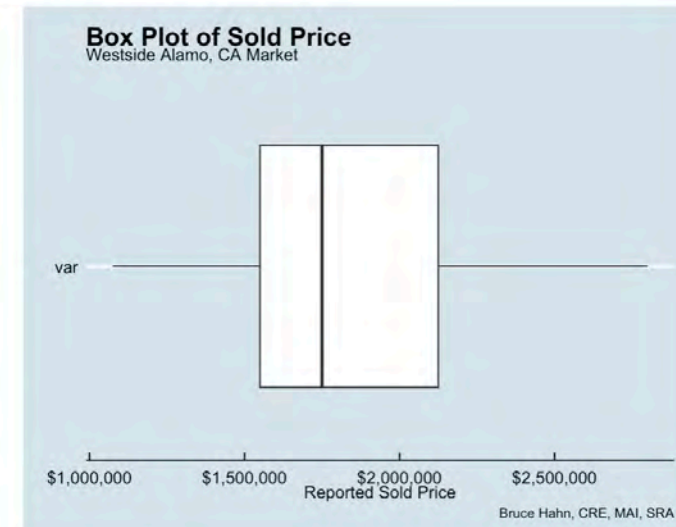


\$1,750,000

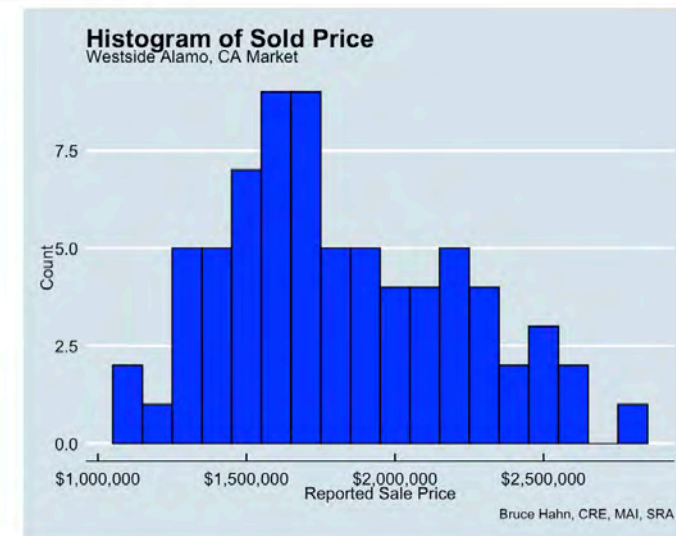
Median Home Price



Competitive Market Segment Box Plot



Competitive Market Segment Histogram



The Appraisal Profession

- We don't do a very good job of “appraising” our profession. More “protectionisms” won't fix what ails us!
- We still do the same thing we did 50-60 years ago despite drastic changes in data and technology during this time.
- Appraisers need to innovate and modernize how we do valuations. And be more persuasive!

Does SFR Valuation Matter?

Of

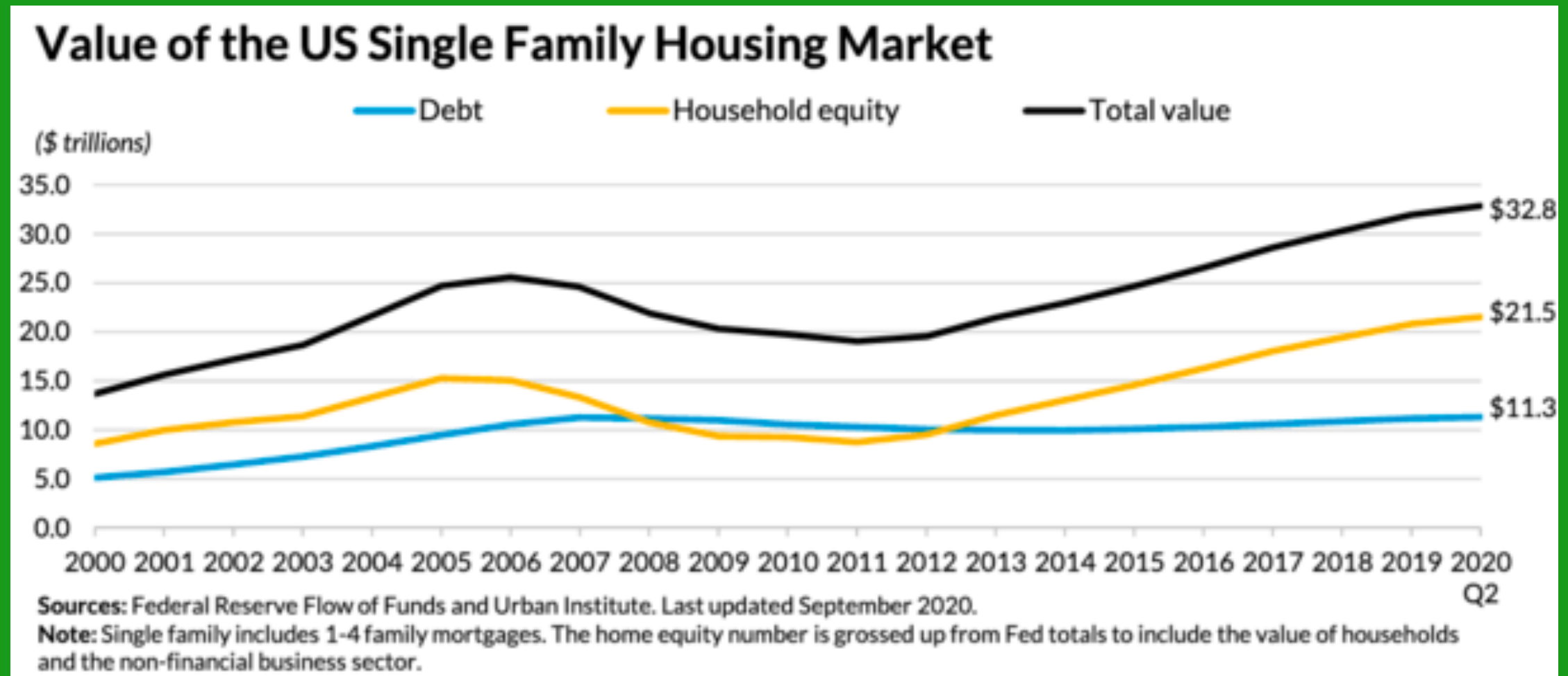
Course!

World Real Estate Value

Source: Savills Research 2022



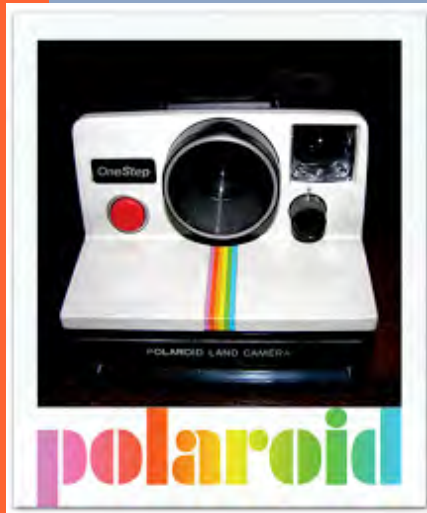
United States Housing



**Versus 2021 US Commercial Real Estate
Value of \$20.7 trillion (Source: NAREIT)**

You Might not like some of what I have to say!

- **Please consider that change IS NECESSARY.**
- **Please decide that the URAR is obsolete.**
- **Decide to broaden your skill set and provide different services.**



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	Total Bdrms. Baths	Total Bdrms. Baths	Total Bdrms. Baths
Room Count							
Gross Living Area	sq. ft.	sq. ft.	sq. ft.	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							
☐ did ☐ did not research the sale or transfer history of the subject property and comparable sales. If not, explain							
My research ☐ did ☐ 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 ☐ did ☐ 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 ☐ "as is", ☐ subject to completion per plans and specifications on the basis of a hypothetical condition that the improvements have been completed, ☐ subject to the following repairs or alterations on the basis of a hypothetical condition that the repairs or alterations have been completed, or ☐ 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.							

URAR created when...

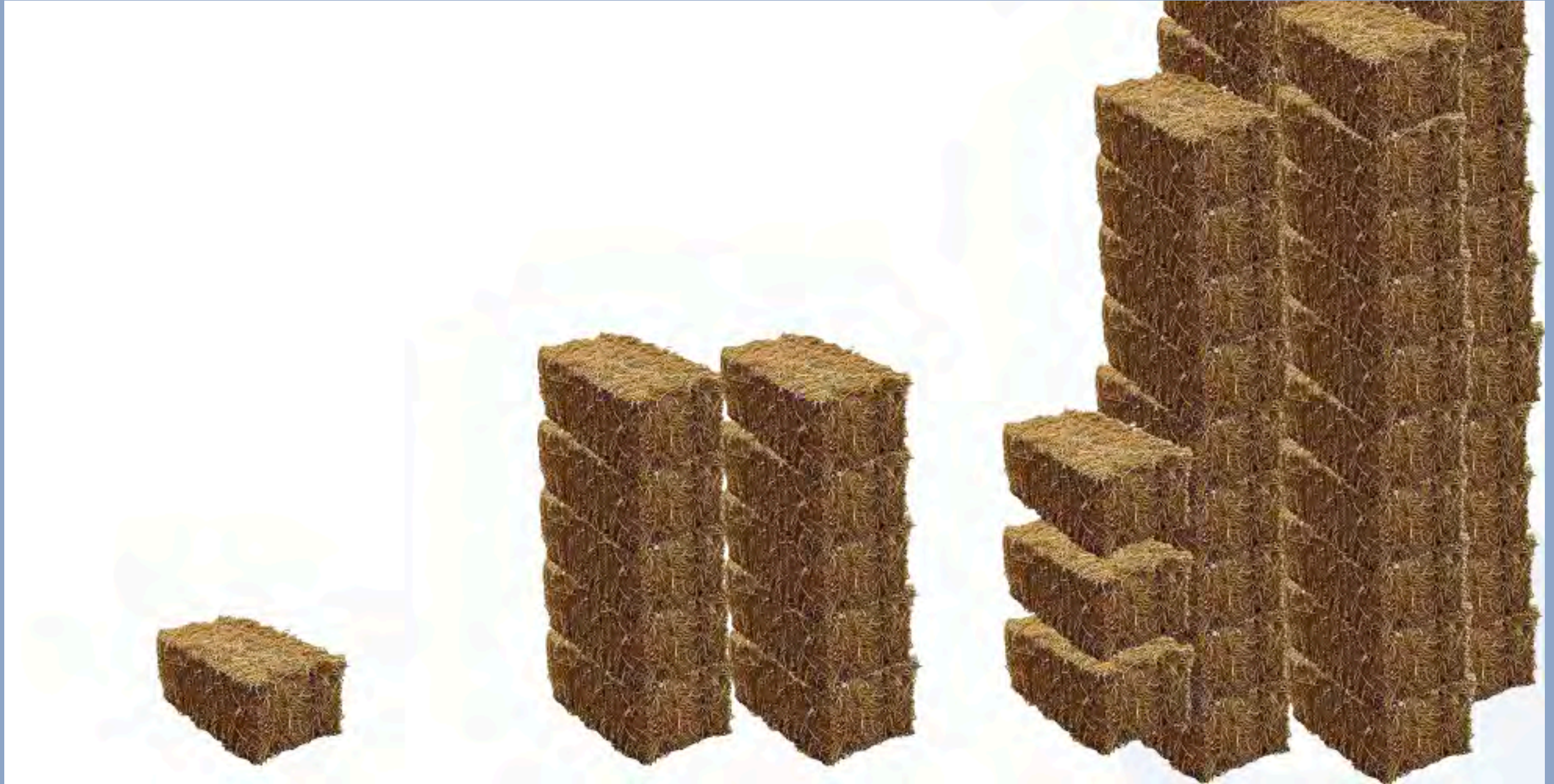
- * Data was very limited - on both the subject and comparable sales/listings.
- * MLS was in printed monthly or quarterly books.
- * No internet to provide subject property information, history, maps, or photos.

DATA GROWTH...

"90% of the data in the world
was created in the last 2 years"

IBM Marketing Cloud, "10 Key Marketing Trends For 2017"

DATA GROWTH...



2018

2020

2028

DATA GROWTH...

- * is EXPONENTIAL - 90% of data is made in the last two years.
- * It will continue to grow exponentially.
- * The need for analysis of the data will continue to grow!

ZILLOW

**WHY DO WE STILL DO THE
SAME OLD URAR THING?**

**EVERYTHING ELSE HAS
CHANGED.....**

YET WE CLING TO IT!!!

Be Professional

- **Established Training and Body of Knowledge**
- **Established Local & National Associations**
- **Code of Professional Ethics**
- **Peer Review of Work (Colleague Control)**
- **Licensing ???**

MOST IMPORTANT

- **Integrity**
- **Honesty**
- **Say NO to some assignments!**
- **Sometimes you have to tell clients what they don't want to hear!**

Why Do Non Lender Work?

Required to Get

Lenders

Want to Know - It Matters!

Taxes (Estate, Gift, Etc)

Eminent Domain

Divorce

Diminution in Value

Employee Relocation

Bankruptcy

Why Do Non Lender Work?

Not Long Ago
It looked like this ->

Want to Know - It Matters!

Lenders

Taxes (Estate, Gift, Etc)

Why Did it Change?

Eminent Domain

Divorce

Diminution in Value

Employee Relocation

Bankruptcy

Risk Transfer!!!

Risk Transfer

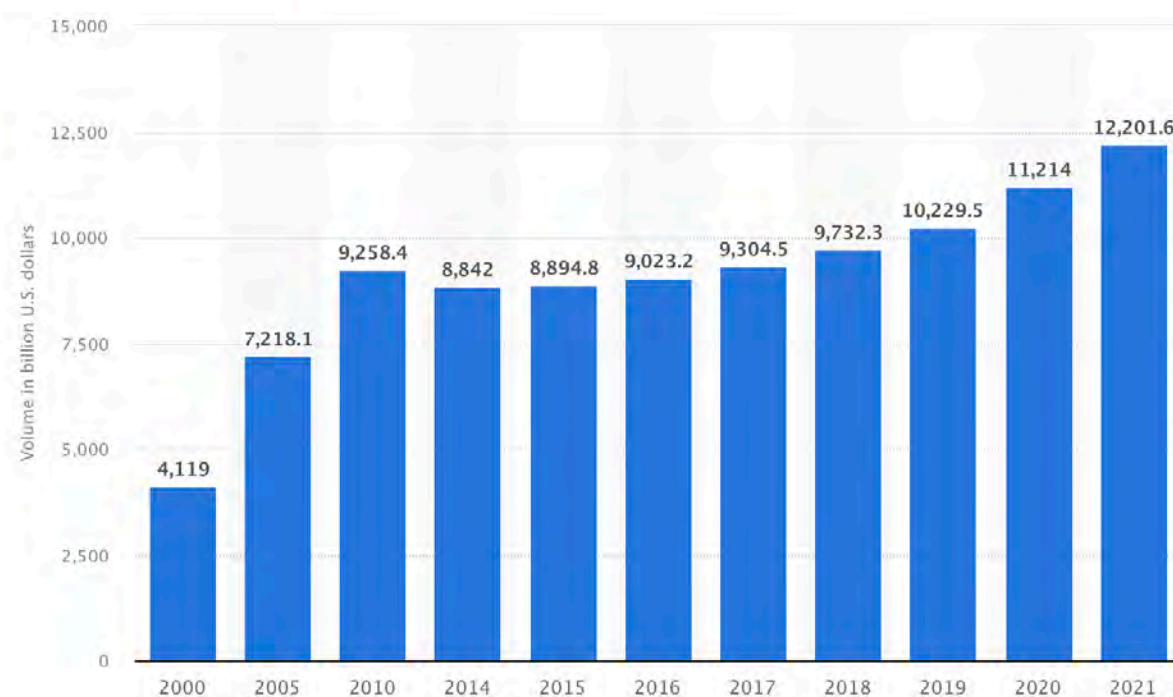
- **SMMEA (Secondary Mortgage Market Enhancement Act) of 1984 allowed Mortgage Backed Securities. Solomon Bros. & BofA**
- **Structured Finance - CDO - Collateralized Debt Obligation in 1987**
- **MBS growth - \$11B in 1984 to \$200B in 1994**

Risk Transfer

- **MBS grew to \$3 Trillion in 2007 and \$10.7 Trillion at the end of 2021.**
- **The Fed held \$2.6 Trillion in RMBS at the end of 2021 (from \$8.7 Trillion in “Assets”). The Fed owned just over 24% of all outstanding Agency MBS.**
- **Private RMBS collapse in 2008 replaced in scale by GSE securitization since that time.**

Volume of mortgaged-backed securities (MBS) outstanding in the United States from 2000 to 2021

(in billion U.S. dollars)



© Statista 2022

[Show source](#)

[Additional Information](#)

DOWNLOAD



PDF



XLS



PNG



PPT

Release date

April 2022

Region

United States

Survey time period

2000 to 2021

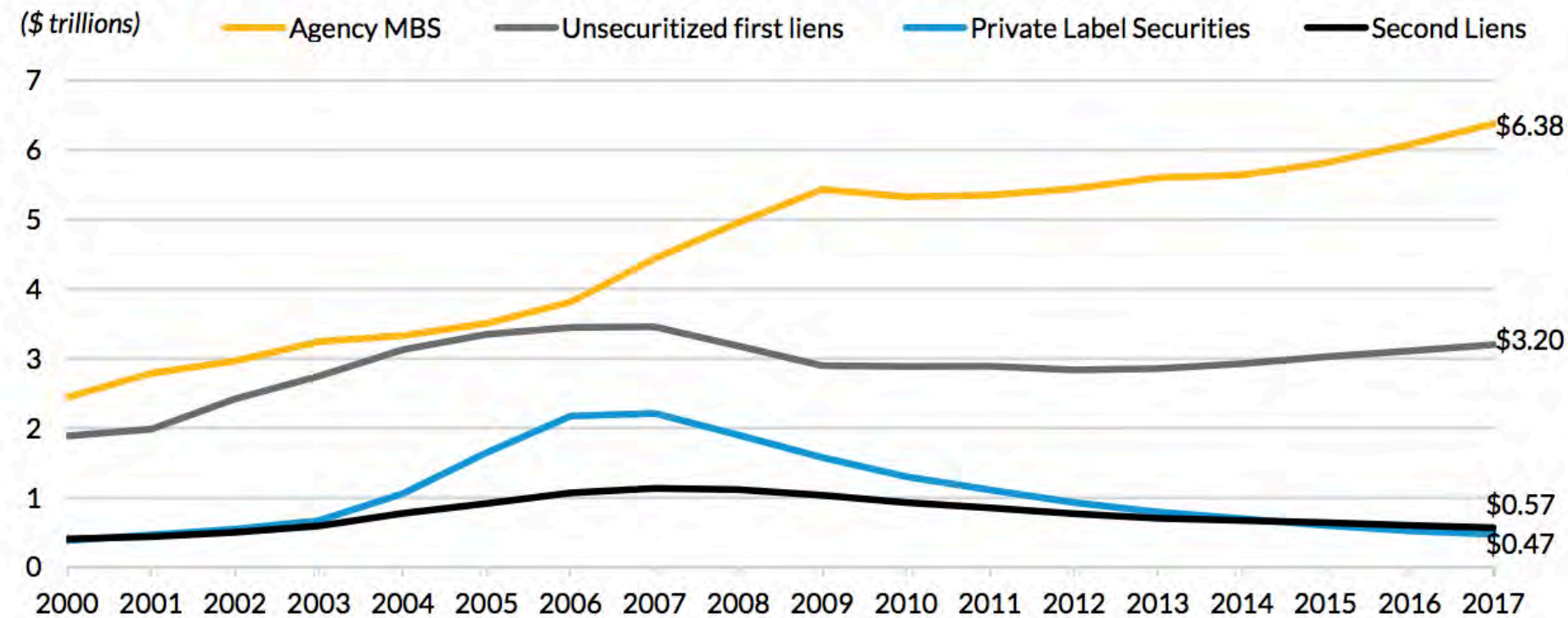
Supplementary notes

Covers debt markets as represented by the source.

Includes Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC) mortgage backed securities (MBS), and collateralized mortgage obligations (CMOs), and CMBs, and private-label MBS/CMOs.

RMBS Growth 2000-2021

Size of the US Residential Mortgage Market



US Residential Mortgages



Interest Rate Trends

What just happened during the last 36 months?

Perplexing Thought

- Definition of Market Value is BROKEN.
- Not a single element has been seen in the market much of the last decade.
- Risk and Reward are a lost concept as a result.
- The market and appraisers have not considered risks during recent years. We should!

Definition Market Value

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, knowledgeably and assuming the price is not affected by undue stimulus.**

Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

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

Market Conditions & Risks

- There are not always more buyers than sellers.
- Markets dependent on mortgage lending have risk of default and foreclosure in down markets.
- Risk of liquidations in down market - REO sales.
- Different pricing would be necessary without liquidity (easy and abundant credit)!

RISK vs. REWARD

- Higher the Risk the Higher the Return
- Market Distortions have changed this equation
- “Free” money - Negative Interest Rates?
- Pricing of all assets would be different without leverage (DEBT)!
- Consider these factors and inform your client!

LIQUIDITY

- Availability of Credit
- Ignored in Appraisal of “Market Value”
- Private Equity - Issues Securitized Debts
- Liquidity can vary and impacts real estate Prices!

First and Foremost

- **Do NOT use a Fannie Mae form report for non-lender work.**
- **If you have to use a form, use the AI Reports or other General Appraisal Report form. (or ERC form!)**
- **It would be best to develop your own reporting format. Form like or narrative.**

What Does this Mean?

- **Provide analysis and support for your appraisal work. USE CRITICAL THINKING SKILLS!**
- **Persuade the reader of your expertise.**
- **Be clear and concise in your report. Persuasive!**
- **Remember that data is available to everyone. It is up to us to analyze and explain what it ALL means with regard to value. Not just some of the sales data!**

30 Years Ago

We relied on MLS Photobooks (Quarterly or monthly!) and CMDC books or microfiche.

It was time consuming just to come up with 3-4 sales. You did not have access to MLS unless you were a broker either!

Basically you were lucky to amass just a handful of “comparable” sales!

Today

- **Data is abundant. We can download an entire county's MLS records for the previous several years into a single spreadsheet. Tens of thousand of sales!!!!**
- **Almost the same level of detail is available free or nearly free to EVERYONE over the internet.**

Think About This...

- In just three decades we have gone from almost no data to data overload.
- It begs for analysis. If you only pick a handful of the one to three dozen sales that are “comparable” your omission of the others raises a whole host of questions about your value conclusion. Think GeorgeDell.com and valuemetrics.info

Also.....

- **You need to become knowledgeable about the specialty area you intend to serve.**
- **Research and understand applicable laws, rules and regulations that impact the need for your valuation and how you prepare it.**
- **You need this knowledge to develop an appropriate scope of work for your client. Don't assume they know exactly what they need.**

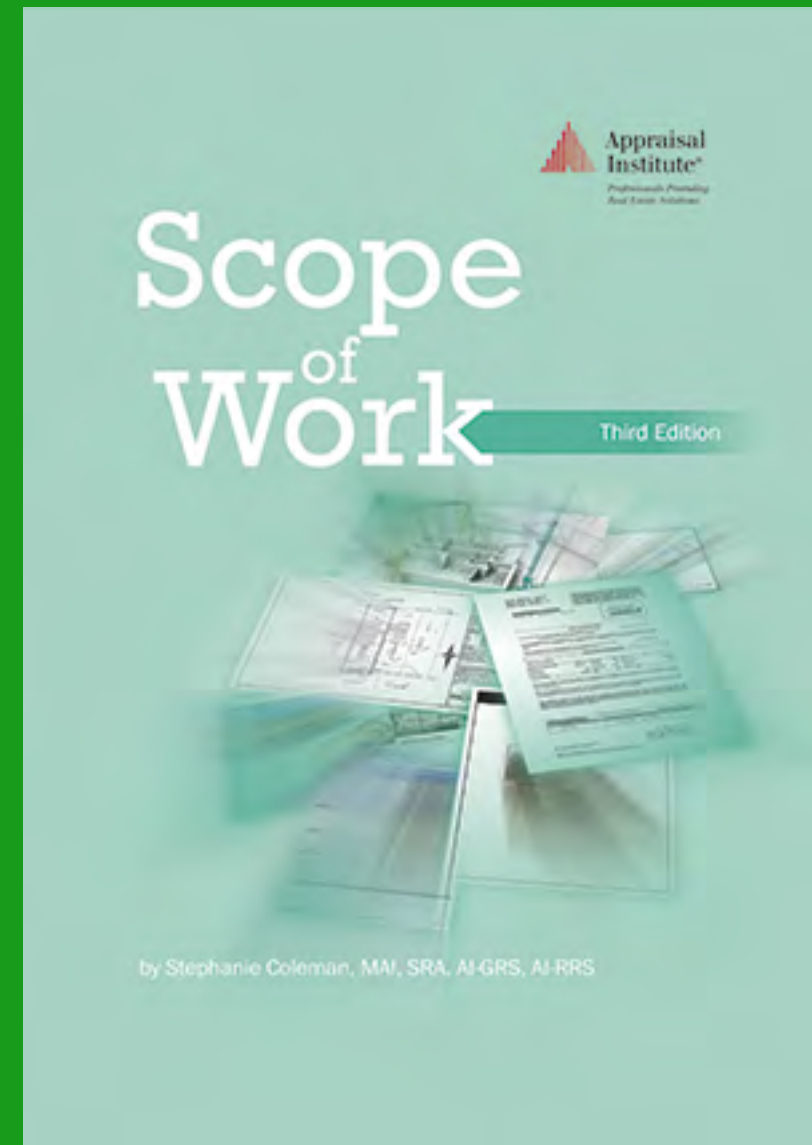


Build a Library!

(of Appraisal Literature)

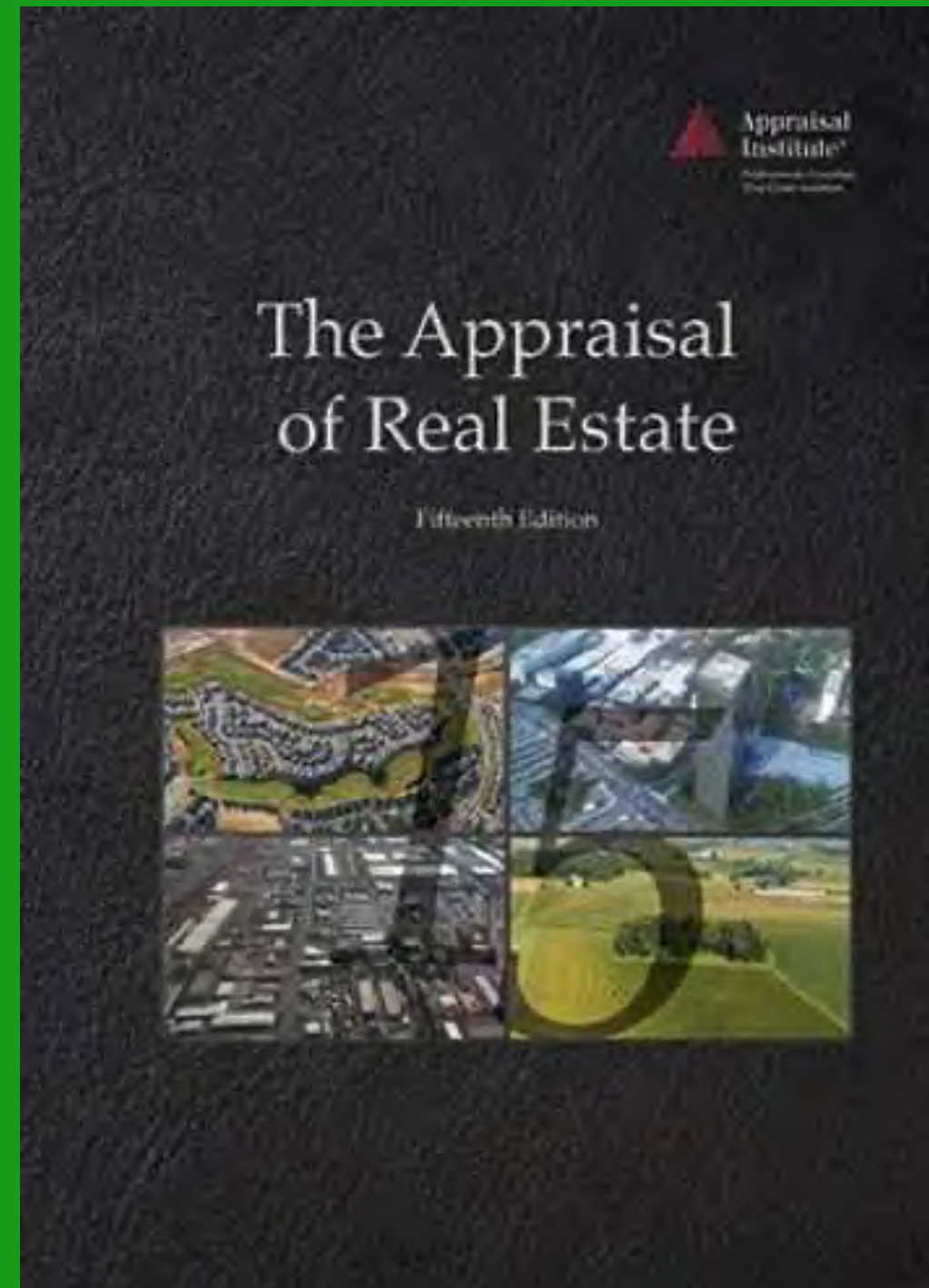
Important Resources

This should be in your
Library!

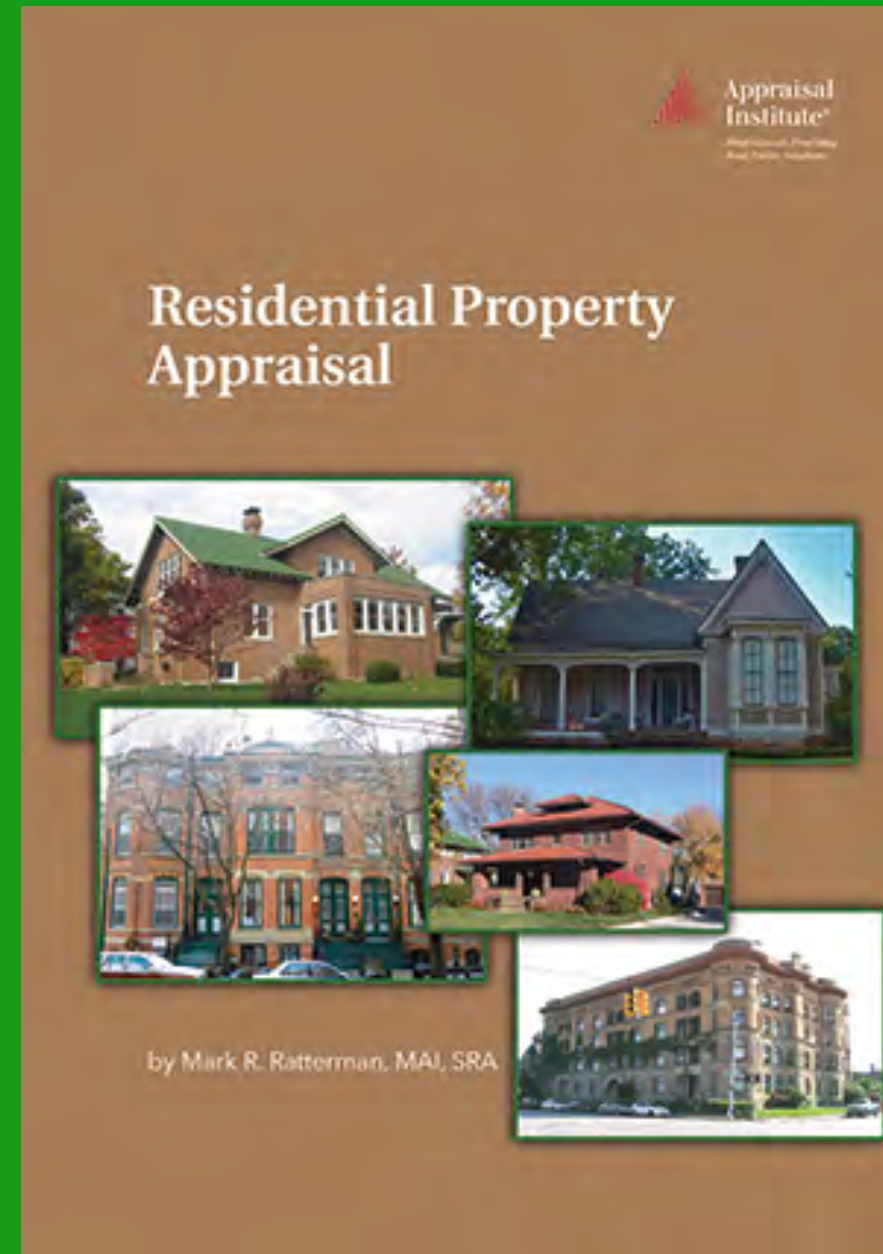


Appraisal of Real Estate

Fifteenth Edition

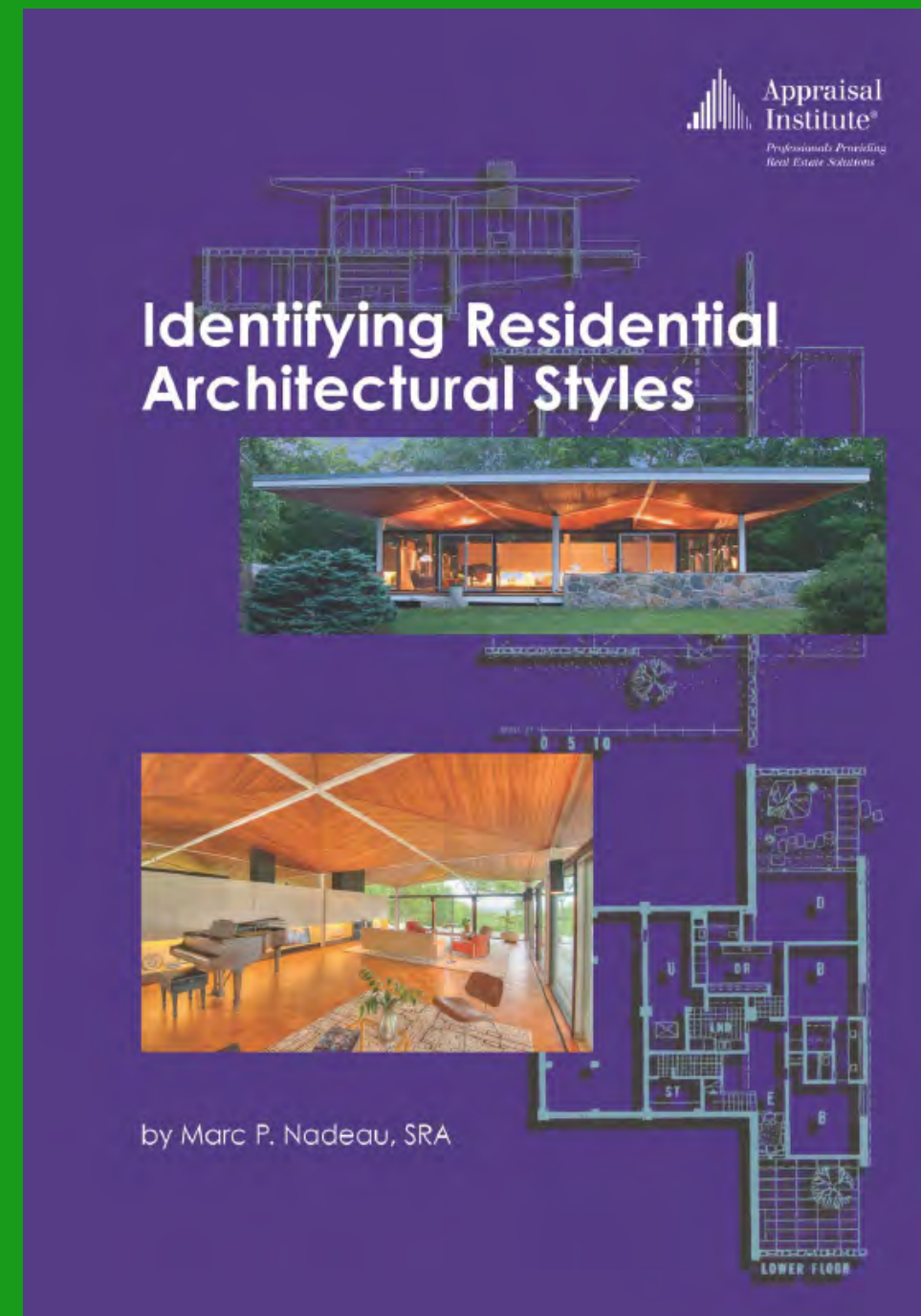


Residential Property Appraisal



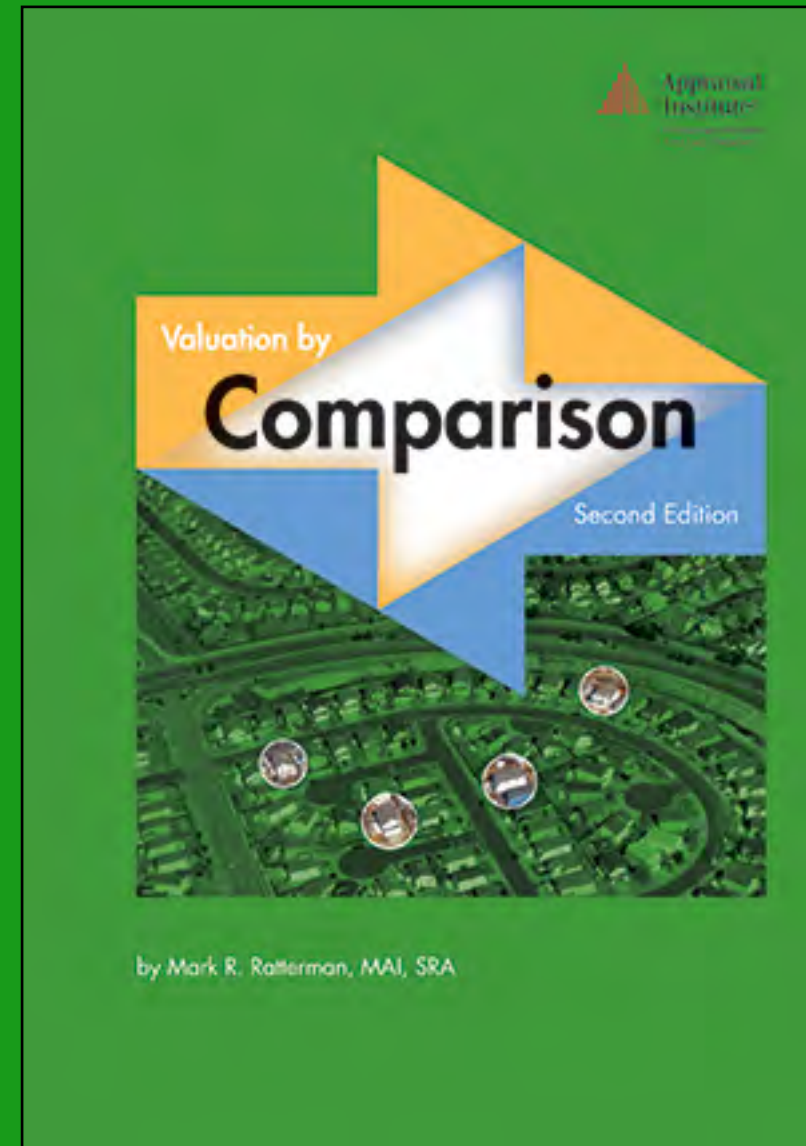
Residential Architectural Styles

This might be Important!



Valuation by Comparison

Good stuff!



Advanced Education

You can never acquire too many appraisal skills!

Always consider expanding your skillset with classes from the best appraisal education providers.



Appraisal Designations

- Will designations get you more work? Yes & No!
- The letters of the designation will not be what gets you more appraisal assignments.
- The education, skills and knowledge you get along the way to the designation is what will set you apart in the market to users of appraisal services!

Scope of Work-Significant 7

- Client (Who is hiring you?)
- Intended User (Who do you intend will use the report)
- Intended Use (Your intent regarding how report will be used)
- Type of Opinion (Value/Quality - Definition of Value)
- Effective Date of Opinion (Appraisal)
- Relevant Characteristics about the Subject of the Appraisal or Review Assignment.
- Assignment Conditions



- **Estates/Gifting, Trust Basis at Date of Death**
- **Charitable Remainder Trust**
- **Casualty Losses**

Things to Consider

- Is the IRS another intended user?
- The report may sit for years until a trust is closed at a second death before it is utilized or read.
- The value conclusion may have a significant impact on an estate and to the IRS. It needs to be well detailed and supported with proper analysis. Don't just do a quick appraisal!

**Treasury Department
Circular No. 230
(Rev. 6-2014)**

Catalog Number 16586R
www.irs.gov

**Regulations Governing Practice before
the Internal Revenue Service**

Department
of the
Treasury

**Internal
Revenue
Service**

**Title 31 Code of Federal Regulations,
Subtitle A, Part 10,
published (June 12, 2014)**

IRS Circular 230

Rules for Practice before the IRS

IRS Gift Tax Value Definition

Treasury Reg 25.2512-1

- “The value of the property is the price at which such property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell, and both having reasonable knowledge of relevant facts. The value of a particular item of property is not the price that a forced sale of the property would produce. Nor is the fair market value an item of property the sale price in a market other than that in which such item is most commonly sold to the public, taking into account the location of the item wherever appropriate.

IRS Estate Tax Value Definition

Treasury Reg 20.2031-1

- “The fair market value is the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of relevant facts. The fair market value of a particular item of property includible in the decedent’s gross estate is not to be determined by a forced sale price. Nor is the fair market value of an item of property the sale price in a market other than that in which such item is most commonly sold to the public, taking into account the location of the item wherever appropriate.”

IRS Charitable Contribution

Treasury Reg 1.170A-1(c) (2)

- “The fair market value is the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of relevant facts. If the contribution is made in property of a type which the taxpayer sells in the course of his business, the fair market value is the price which the taxpayer would have received if he had sold the contributed property in the usual market in which he customarily sells, at the time and place of the contribution and, in the case of a contribution of goods in quantity, in the quantity contributed.”

IRS Publication 561

Information included in qualified appraisal. A qualified appraisal must include the following information:

- 1 A description of the property in sufficient detail for a person who is not generally familiar with the type of property to determine that the property appraised is the property that was (or will be) contributed,
- 2 The physical condition of any tangible property,
- 3 The date (or expected date) of contribution,
- 4 The terms of any agreement or understanding entered into (or expected to be entered into) by or on behalf of the donor that relates to the use, sale, or other disposition of the donated property, including, for example, the terms of any agreement or understanding that:
 - 1 Temporarily or permanently restricts a donee's right to use or dispose of the donated property,
 - 2 Earmarks donated property for a particular use, or
 - 3 Reserves to, or confers upon, anyone (other than a donee organization or an organization participating with a donee organization in cooperative fundraising) any right to the income from the donated property or to the possession of the property, including the right to vote donated securities, to acquire the property by purchase or otherwise, or to designate the person having the income, possession, or right to acquire the property,
- 5 The name, address, and taxpayer identification number of the qualified appraiser and, if the appraiser is a partner, an employee, or an independent contractor engaged by a person other than the donor, the name, address, and taxpayer identification number of the partnership or the person who employs or engages the appraiser,
- 6 The qualifications of the qualified appraiser who signs the appraisal, including the appraiser's background, experience, education, and any membership in professional appraisal associations,
- 7 A statement that the appraisal was prepared for income tax purposes,
- 8 The date (or dates) on which the property was valued,
- 9 The appraised FMV on the date (or expected date) of contribution,
- 10 The method of valuation used to determine FMV, such as the income approach, the comparable sales or market data approach, or the replacement cost less depreciation approach, and
- 11 The specific basis for the valuation, such as any specific comparable sales transaction.

Tax Law Changes

- Federal Estate and Gift Tax exemption is \$12M per individual and \$24M for couples. This will sunset at end of 2025 and drop to around \$6M!
- Federal Income Taxes will also sunset the Tax Cuts and Jobs Act of 2017 at the end of 2025. Most tax brackets will increase about 3-4%. (12% to 15%, 22% to 25%, and 24% to 28%).

Where do you get estate or tax related assignments?

- Attorneys
- Accountants
- Financial Planners
- Individuals
- Enrolled Agents

U.S. Bankruptcy Court

- Similar to Estate and Tax work. Same client sources.
- Bankruptcy Court operates just like US Tax Court
- You will get different pressures from a debtor client and a creditor client. Remember that an appraiser provides a neutral third party opinion of value that others rely upon.

Family Law

- Division of Community Property
 - May require more than one date of value.
 - Rental value may be important.

Family Law

- Moore Marsden Calculation - based on 2 family law cases
 - Marriage of Moore 1980
 - Marriage of Marsden 1982
- Basically considers personal and community contributions to property for dissolution settlement purposes. May require multiple dates of valuation.

“Watts Charge” or “Watts Credit”

- **Marriage of Watts 1985**
 - Applies when one spouse uses the community property after separation.
 - Rental value is needed in this situation.

Court Appointed Expert

- Section 730 of the California Evidence Code
- Appointed as a Neutral Expert for both sides or by bench officer.
- “Officer of the Court” - Answer only to court.
- Family Law is a bench trial.

Eminent Domain

- Just Compensation - Fifth Amendment US Constitution. *“nor shall private property be taken for public use, without just compensation.”*
- California uses the “State Rule” methodology.
- Property Owner can get an appraisal at condemning agency expense in California.

IRWA

International Right of Way
Association

www.irwaonline.org

2012 Edition

Principles of Right of Way



IRWA
Learn. Lead. Advance.

Necessary Education

- Condemnation Principles and Applications

Appraisal Institute - 3 Day Course

- The Valuation of Partial Acquisitions

IRWA - 4 Days www.irwaonline.org

Value Definition

Fair Market Value

The Fair Market Value of the property taken is the highest price on the date of valuation that would be agreed to by a seller, being willing to sell but under no particular or urgent necessity for so doing, nor obliged to sell, and a buyer, being ready, willing and able to buy but under no particular necessity for so doing, each dealing with the other with full knowledge of all the uses and purposes for which the property is reasonably adaptable and available.

The Fair Market Value of property taken for which there is no relevant, comparable market is its value on the date of valuation as determined by any method of valuation that is just and equitable.

The Fair Market Value of the property taken shall not include any increase or decrease in the value of the property that is attributable to any of the following:

- The project for which the property is taken.
- The eminent domain proceeding in which the property is taken.
- Any preliminary actions of the plaintiff relating to the taking of the property.

California Code of Civil Procedure, Sections 1263.320 & 1263.330.

Key Concepts

- Larger Parcel
- Remnant Parcel
- Before and After Analysis
- Severance Damages

Where do you get Right of Way Appraisal Assignments?

- Government Agencies
- Private Individuals
- Attorneys

Diminution in Value

- Before and After Analysis for Valuation
 - Value Before the Diminution
 - Value After the Diminution
 - Difference between values is the Diminution
 - Market evidence is critical

Examples

- Title Companies for missed easement
- Construction Defects
- Landslide/Subsidence/Erosion
- Eminent Domain
- Fire/Natural Disaster
- Conservation Easement

Diminution Library Must Have

Real Estate Damages,
Third Edition



Where do you get DIV Appraisal Assignments?

- Title Companies
- Attorneys
- Individuals
- Insurance Companies
- Government Agencies

Relocation

- Employee Relocation Council - CRP

www.worldwideerc.org

- ERC form. Utilizes forecasting. Must Use Listings and Sales
- RAC - Relocation Appraisers Consortium

www.rac.net

Client:		Client File #:	
Client Address:			
City:	State:	Zip Code:	
Transferor:	Owner(s) of Record:		
Subject Property Address:	Unit:	County:	
City:	State:	Zip Code:	
Appraiser Company Name:		Appraiser File #:	
Appraiser:		Co-appraiser (if applicable):	
Appraiser Address:			
City:	State:	Zip Code:	
Ph. #:	Fax #:	E-mail:	

SALIENT FACTS AND CONCLUSIONS

Anticipated Sales Price: \$	(p.6)	Mandatory Inspections	☐ Yes ☐ No	(p.2)	
Assignment Marketing Period:		Adverse Easements/Encroachments	☐ Yes ☐ No	(p.2)	
☐ Not to exceed 120 days ☐ Client Instruction: Not to exceed _____ days	(p.5)	Adverse External Conditions	☐ Yes ☐ No	(p.2)	
Appearance: ☐ "as is" ☐ Client Instruction:	(p.3)	Adverse Environmental Conditions	☐ Yes ☐ No	(p.2)	
Date of Value Opinion (Effective Date):	(p.6)	Apparent Modifications to Dwelling	☐ Yes ☐ None Observed	(p.3)	
Subject Property Listing Information:	(p.2)	Adverse Conditions Requiring Inspections	☐ Yes ☐ None Observed	(p.3)	
Is the subject property currently listed? ☐ Yes ☐ No		Recommended Repairs and/or Improvements	☐ Yes ☐ No	(p.3)	
Current List Price: \$		New Construction Competition	☐ Yes ☐ No	(p.4)	
days on market: _____ days		Distressed Market Competition	☐ Yes ☐ No	(p.4)	
Description of Improvements:	(p.3)	Prevalence of Seller Concessions	☐ Yes ☐ No	(p.4)	
Actual Age (Yrs.): _____		Adverse Financing Conditions	☐ Yes ☐ No	(p.4)	
Bedrooms: _____					
Baths: _____					
Gross Living Area: _____ square feet					
Overall Historic Price Trend:	(p.4)	Current Supply/Demand Status:	(p.4)	Forecasted Price Trend:	(p.5)
☐ Increasing ☐ Decreasing ☐ Stable ☐ Unstable		☐ Under Supply ☐ In Balance ☐ Over Supply		☐ Increasing ☐ Stable ☐ Decreasing	

DEFINITIONS AND GUIDELINES

Intended Use and Purpose of the Relocation Appraisal: The intended use of the appraisal is to assist an employer in facilitating the employee relocation process. The intended users of the appraisal are only the appraiser's client and the employer. The purpose of the appraisal is to develop an opinion of the Anticipated Sales Price for a relocating employee's residence.

Scope of Work: The scope of work includes performing an interior and exterior appraisal inspection of the subject property; collecting, verifying and analyzing pertinent data; considering market trends; developing an opinion of the subject property's Anticipated Sales Price utilizing Forecasting; and communicating the findings in this Summary Appraisal Report. The appraisal is to be developed utilizing only the Sales Comparison Analysis, which most accurately reflects the actions of typical buyers and sellers in the market place. This approach must include an analysis of competing properties, pending sales and closed sales, resulting in a reliable opinion of Anticipated Sales Price. The cost approach, income approach, and highest and best use analysis are excluded as they are not necessary to develop a credible opinion of Anticipated Sales Price.

Definition of Anticipated Sales Price: The price at which a property is anticipated to sell in a competitive and open market, assuming an arm's length transaction whereby:

- The analysis reflects the subject property's appearance "as is" (or as instructed by the client) and is based on its present use as a residential dwelling. (For new construction not completed see Guideline 1(d).)
- Both buyer and seller are typically motivated; both parties are well-informed or well-advised and acting in what they consider their best interests.
- Payment is made in cash or its equivalent.
- An assignment marketing period, not to exceed 120 days (or as instructed by the client) and commencing on the Date of Value Opinion, is allowed for exposure in the open market. The analysis assumes an adequate effort to market the subject property.
- Forecasting must be applied to reflect the anticipated trend of market conditions and prices during the subject property's prospective marketing period.

Definition of Forecasting: Forecasting is the process of analyzing historical trends and current factors as a basis for anticipating market trends. (In order to reflect any impact these trends will have on the subject property's marketing time and sales price, a forecasting adjustment must be consistently applied to each comparable sale).

Extraordinary Assumption: The Anticipated Sales Price assumes that no physical changes have occurred to the subject property between the Date of Appraisal Inspection and the Date of Value Opinion. The use of this assumption may affect the assignment results.

Guidelines: In developing an opinion of the Anticipated Sales Price, the appraiser must:

- Consider the subject property's appearance "as is" (or as instructed by the client) on the Date of Value Opinion with adjustments made to reflect reactions from a typical buyer's point of view. These adjustments should reflect the comparative

- Develop and support the price the property is anticipated to sell for during its Assignment Marketing Period, giving particular attention to the analysis of competing properties, pending sales, comparable sales, supply and demand, availability and terms of financing, location, and overall market conditions. Also, consider and make necessary adjustments for other pertinent factors.
- Adjust the sales prices of the comparable sales for seller concessions to reflect a cash equivalent price. Dollar adjustments should be made for concessions such as: seller-paid points, buyer's closing costs, interest rate buy downs, seller financing, or any other terms that influence the final sales price. These adjustments are not necessarily dollar for dollar and should reflect the impact on the sales price resulting from the concession.
- Assume the subject property is free and clear of all liens with the owner of record responsible for satisfying any unpaid installments of special assessments.
- Calculate the gross living area (GLA) of the residence in square footage, using exterior measurements (except condominiums and cooperatives). GLA is generally limited to the habitable above-grade living area only. Basement and attic areas (finished and unfinished) are not included in GLA, bedroom and bath counts. However, they may make a valuable and significant contribution to the property value, and should be calculated and shown separately in the report.
- Rate the various attributes of the subject property, using the terms "excellent," "good," "average," "fair," and "poor." In doing so, compare the characteristics to those of competing properties and neighborhoods (e.g., a luxury, custom-designed home may be rated "average" as compared with competing properties that also are luxury, custom-designed homes). The ratings are defined as follows:
 - Excellent: the amenity or characteristic is superior to the same characteristic found in competing properties and neighborhoods;
 - Good: the amenity or characteristic is better than the same characteristic found in competing properties and neighborhoods;
 - Average: the amenity or characteristic is comparable to the same characteristic found in competing properties and neighborhoods;
 - Fair: the amenity or characteristic is not as good as the same characteristic found in competing properties and neighborhoods; and
 - Poor: the amenity or characteristic is considerably inferior to the same characteristic found in competing properties and neighborhoods.
- Include the following exhibits:
 - photos of the front, rear, street, and interior of the subject property;
 - photos of the subject property depicting any adverse conditions and inspection concerns;
 - photos of factors within view from the subject property that significantly effect marketability either favorably or unfavorably;
 - photos of all competing properties and comparable sales;
 - a sketch of the dwelling indicating all measurements and calculations necessary to determine gross living area. Sketch should also show room configurations.

ERC Appraisal Form PDF

Tax Appeal

- Assessment Appeals Boards

www.boe.ca.gov

- Fair Market Value - definition in State Constitution.
- Fee Simple value - lease impacts ignored.

Fair Market Value

In addition to the meaning ascribed to them in the Revenue and Taxation Code, the words "full value", "full cash value", "cash value", "actual value", and "fair market value" mean the price at which a property, if exposed for sale in the open market with a reasonable time for the seller to find a purchaser, would transfer for cash or its equivalent under prevailing market conditions between parties who have knowledge of the uses to which the property may be put, both seeking to maximize their gains and neither being in a position to take advantage of the exigencies of the other.

When applied to real property, the words "full value", "full cash value", "cash value", "actual value" and "fair market value" mean the price at which the unencumbered or unrestricted fee simple interest in the real property (subject to any legally enforceable governmental restrictions) would transfer for cash or its equivalent under the conditions set forth in the preceding sentence.

Section 15606 California Government Code

- Data Science and Analytics are the future
- MLS provides THE population of sales
- We can analyze the entire market - not just 3-6 sales.
- Appraisal Methodology needs to evolve. It is still the same as when data was relatively limited.
- You cherry picked 4 comps and adjusted them. What about the other 20-25 relevant comps???

Beyond the Form

- Preparing a narrative report is no more work than completing a form report. MAYBE LESS!
- Plus it can tell a far better tale that is easier to understand and more persuasive to the reader.
- Narrative report does NOT have to be long, wordy or overloaded. In fact it should be as concise and to the point as possible.

Signal from the Noise

- Data Science will help you filter out NOISY irrelevant data.
- It will also help you identify and analyze the data that is the “SIGNAL”.
- Simply selecting 3, 6, or 9 sales is not likely to lead to a reliable analysis or the “SIGNAL”!

Please Remember!!!!

- There are two other approaches to value besides the Sales Comparison Approach....
- The Cost Approach and Income Approach are not complicated and can provide additional support for your market value conclusion. The data is available to complete these approaches with meaningful results!!
- Do not forget to use Critical Thinking Skills!

Review

- Consider developing your skills as a reviewer.
- There is a need for appraisal reviews in all aspects where a valuation is necessary.
- You should think like a reviewer anyways to develop the best possible appraisal report.

Consulting

- Not all work needs to be a valuation. Consider consulting assignments for:
 - feasibility (project or addition)
 - highest and best use
 - alternative use

Arbitration/Mediation

- Experts are needed for valuation in these situations also.
- Semi-Formal private court setting.

Rural Appraisal

- Appraisal of agricultural properties outside established metro areas in California.
- May require a certified general license.
- ASFMRA has good methodologies to appraise rural land by analyzing land use mixes.
- Not that complicated - data is available!
- Land, permanent plantings, & buildings.

Non-Lending Assignments

- Lending Assignments fees may be \$XXX.
- Non-Lending Work fees may be \$X,XXX!

Take Yourself to the Next Level of Valuation

www.valuemetrics.info

WHY?

WHY STATS, WHY GRAPHS, WHY DATA, WHY SCIENCE?

By George Dell, SRA, MAI, ASA, CRE

WHY DO WE PUT "STATS", "GRAPHS", "DATA", AND "SCIENCE" TOGETHER?

Updated, and newly edited reprint of George Dell's original article first printed in the August, 2018 edition of Ann O'Rourke's Appraisal Today paid newsletter.

Community of Asset Analysts

- By invitation only to graduates of SGDS 1.
- On groups.io - place where valuation professionals help each other with modern data science techniques.

**“Machine Learning and
Artificial Intelligence will replace us!”**

I Don't think so!

**But we can use these tools to our
advantage! Yes it will require
some learning! But it is really not
that complicated!**

Why Data Science?

BIAS

APPROPRIATE DATA SELECTION

DATA VISUALIZATION

REPRODUCIBILITY

Consider Acceptance:

Widely Accepted

Medicine

Insurance

Transportation

Telephony

Retail

Banking/Finance

Manufacturing

Government

Energy

Marketing/Advertising

Sports

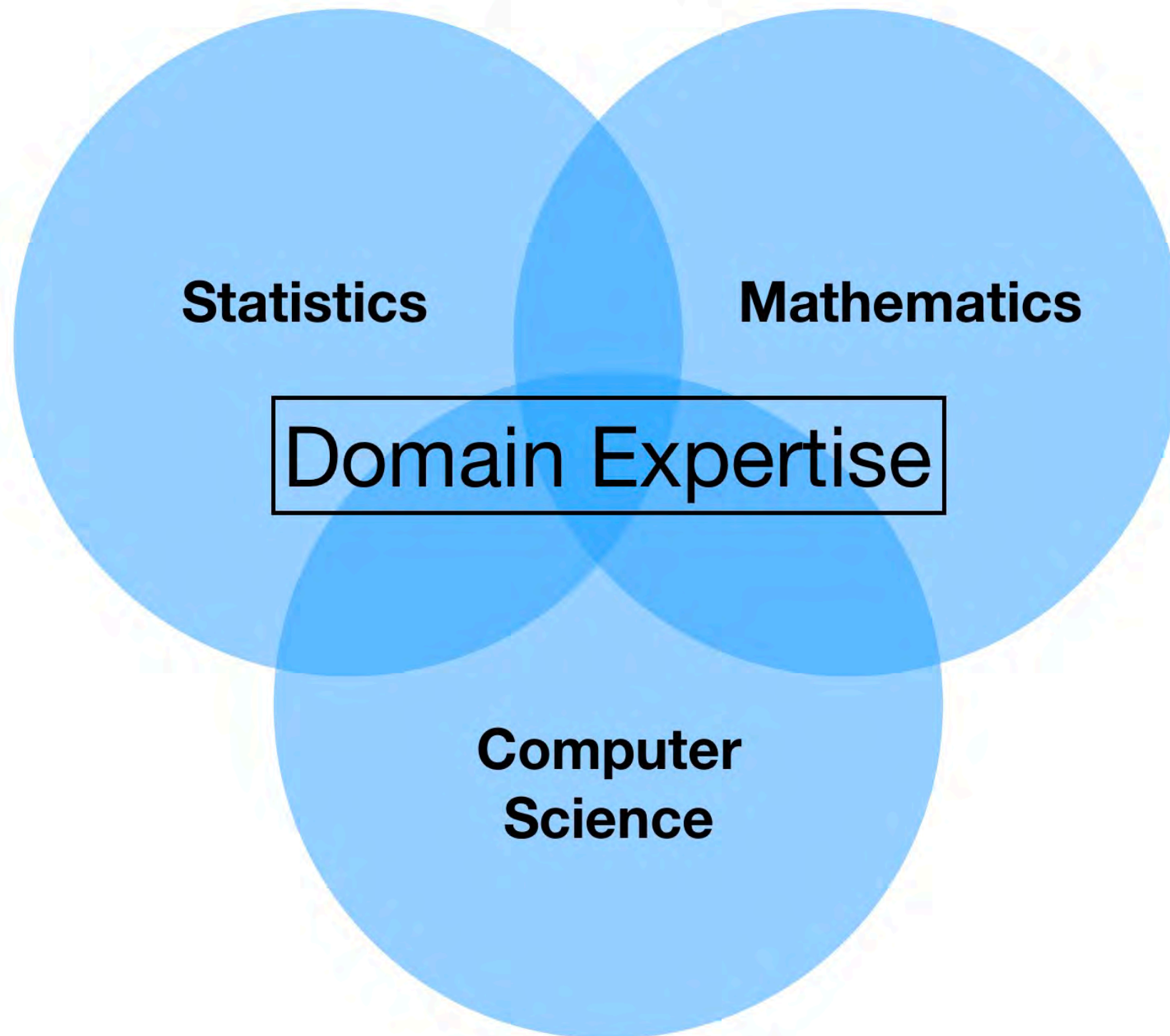
Many MORE!!!

Not Widely Utilized

Real Estate

Academia

Data Science



- Domain Expertise is an integral component!

Cost for this Software

STATE OF THE ART ANALYTICS

RAPIDLY GROWING PLATFORM FOR MOST BUSINESS SECTORS

How much is it?
\$\$\$

ALL OF IT IS OPEN SOURCE

THAT MEANS IT IS: FREE

Downloads:

DOWNLOAD R

<http://cran.r-project.com>

DOWNLOAD R STUDIO

www.posit.co

Why Data Science

- * DOMAIN EXPERTISE
- * Your knowledge and skill with appraisal methodologies matter in the application of data science.
- * **Build your appraisal skill set too!!**

Why Data Science

- * **Exploratory data analysis to determine the appropriate data set. Iterative.**
- * **We can use descriptive statistics (think high school level!).**
- * **POWERFUL data visualization. We are visual creatures and like this style!**

Why Data Science

- * **Yes. It will take time to learn.**
- * **Yes. It will be time consuming to build templates.**
- * **However it will be worth the time!!**
- * **It is not HARD. It is just all NEW!**

Why Data Science

- ✱ **Reproducibility** is key.
- ✱ What you build will be easy to reuse with minor effort.
- ✱ Your work product will be quicker, more reliable, more useful!

About Data Science

- * As much as 75% to 80% of time is spent on wrangling or munging data.
- * Selecting the appropriate data is most important.
- * The analysis and reporting is a small amount of time involved!

Exploratory Analysis

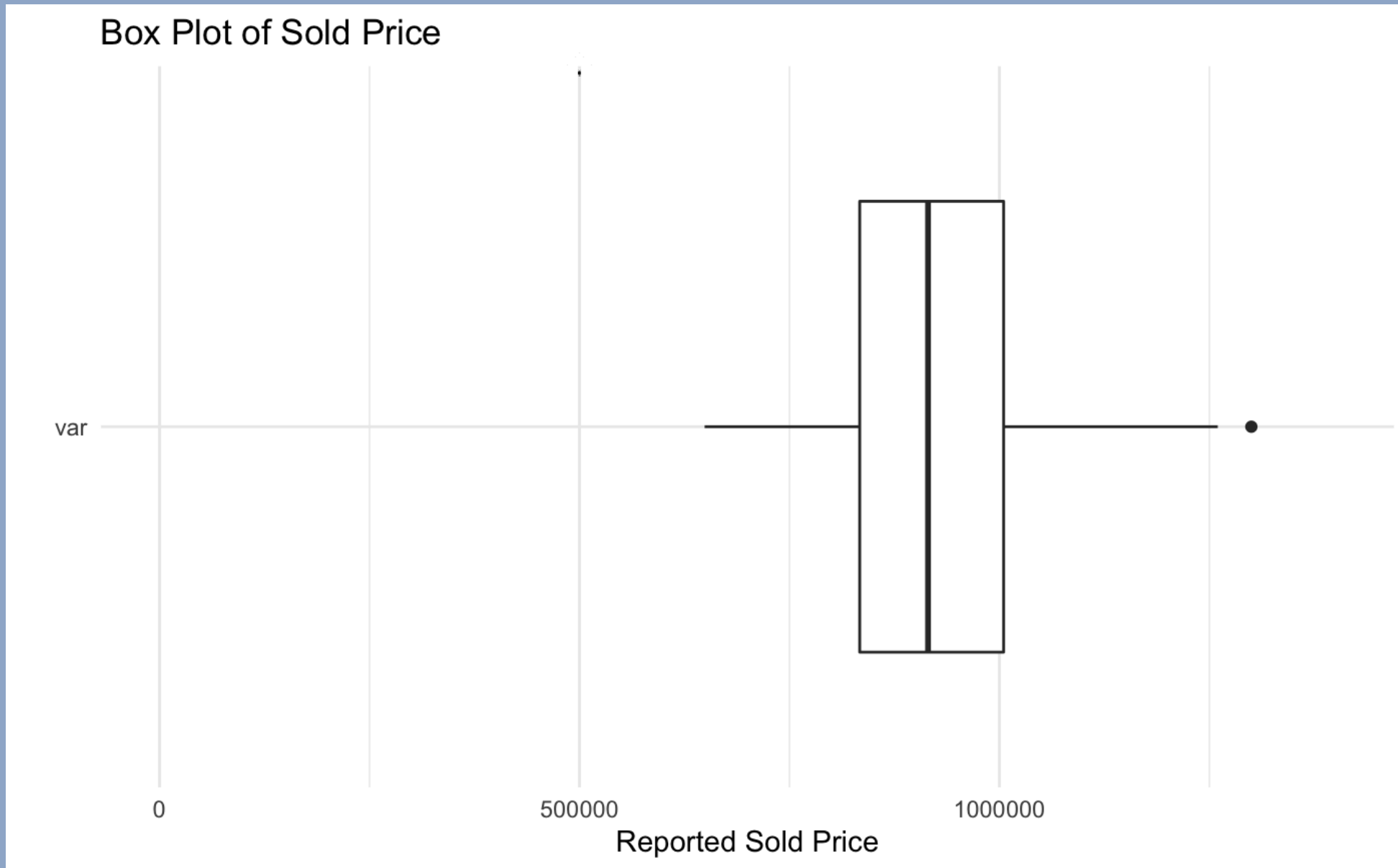
- ✱ Use of simple tools to determine the appropriate data set.
- ✱ Visualize with BoxPlot, Histogram, Bar Chart, and/or Scatterplot.
- ✱ There are other powerful tools but these can do most of what we need!



SHOWS DISTRIBUTION

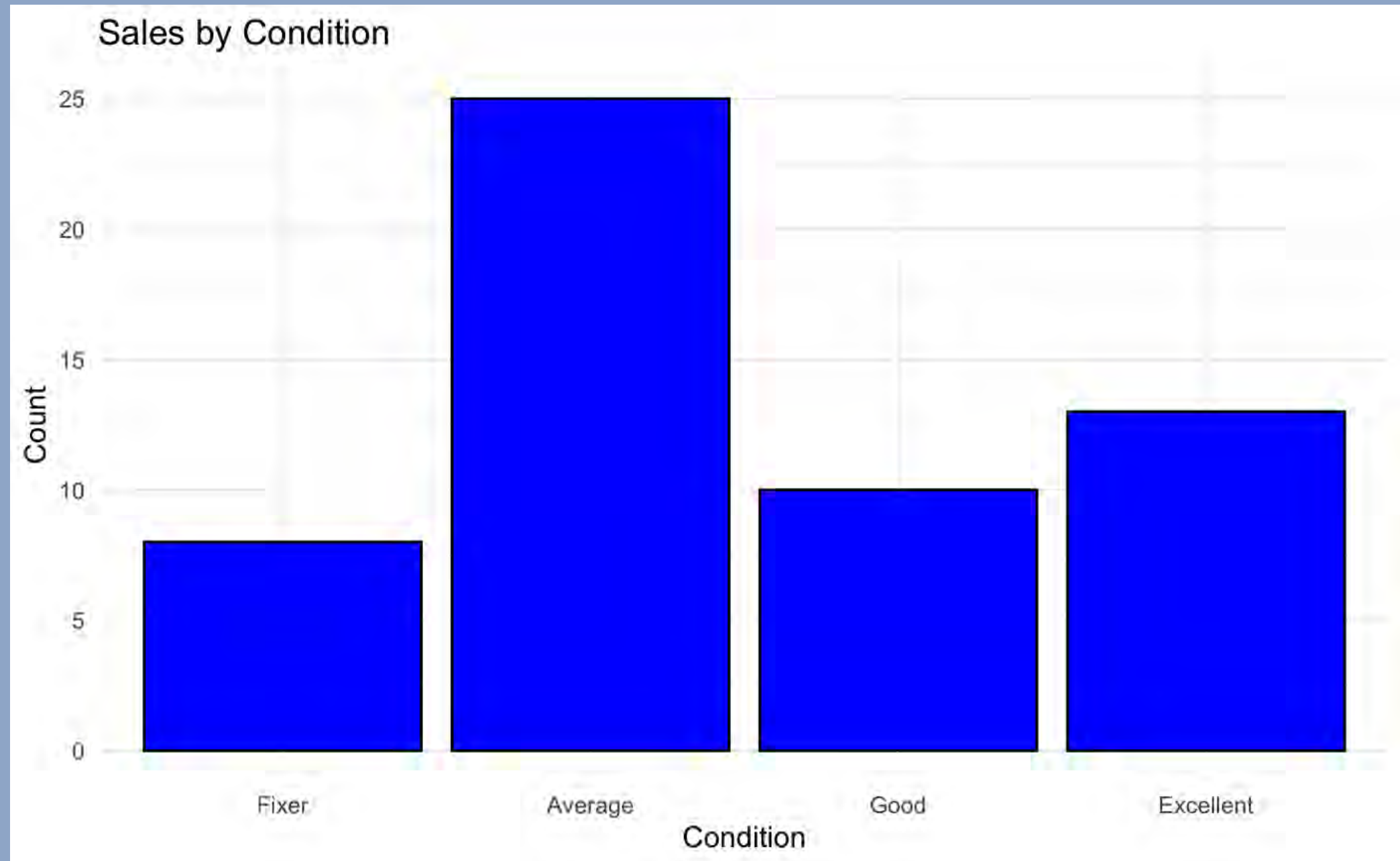
EXPLORE DIFFERENT BIN WIDTHS

HISTOGRAM



**SHOWS DISTRIBUTION
BY QUARTILE WITH MEDIAN**

BOXPLOT



**GREAT FOR CONTRAST
AND COMPARISON**

BAR PLOT



SHOW ASSOCIATION OF ANY 2 VARIABLES

SCATTERPLOT

REGRESS TO QUANTIFY RELATIONSHIP

Other Resources

- * www.datacamp.com Online Education
- * <https://r4ds.had.co.nz> R for Data Science book
- * www.moderndive.com Learn the Tidyverse
- * www.rstudio.com Vendor web site
- * www.kaggle.com Learning challenges
- * www.r-bloggers.com Tech web site

TANSTAAFL

??

TANSTAAFL

There

Ain't

No

Such

Thing

As

A

Free

Lunch

No Free Lunch!

- * Software may be free.
- * You must invest your time to learn.
- * Appraisers face dwindling demand.
- * Analysts will be needed instead!



Statistician – George E.P. Box (1919-2013)

Founded University of Wisconsin, Madison,

Statistics Department 1960

“All models are approximations.

Essentially, **all models are wrong, but some are useful.**

However, the approximate nature of the model must always be borne in mind.”

USEFUL MODELS For Appraisers

- ✱ Machine or Statistical Learning
- ✱ Simple Linear Regression
- ✱ Bayesian Probability Analysis

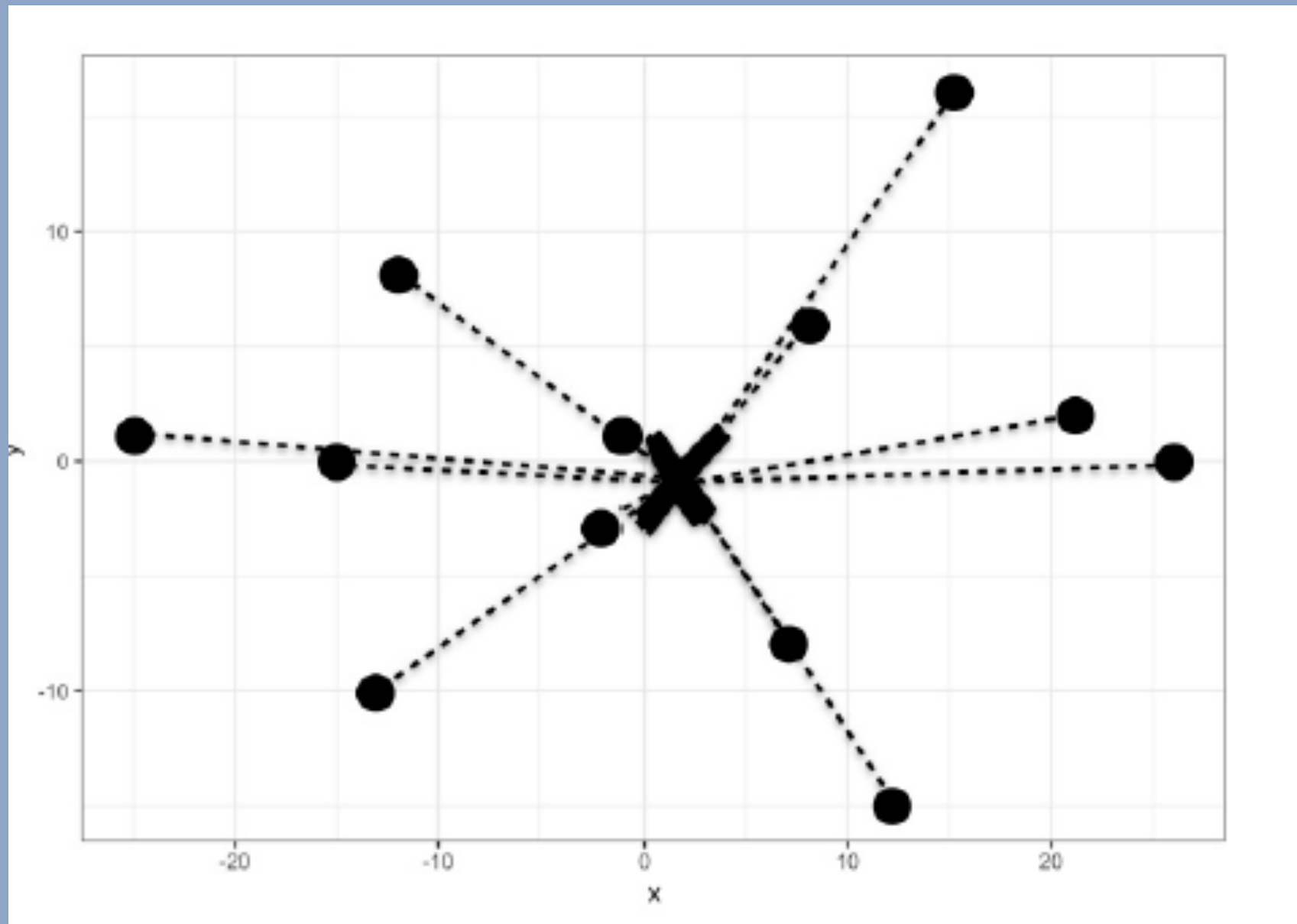
“Machine Learning”

- ✱ **Concept is simple enough.**
- ✱ **Mathematical!**
- ✱ **But Algorithm does the hard work!**
- ✱ **You need to understand the concept.**

“Hierarchical Clustering”

K-Means

Nearest Neighbor

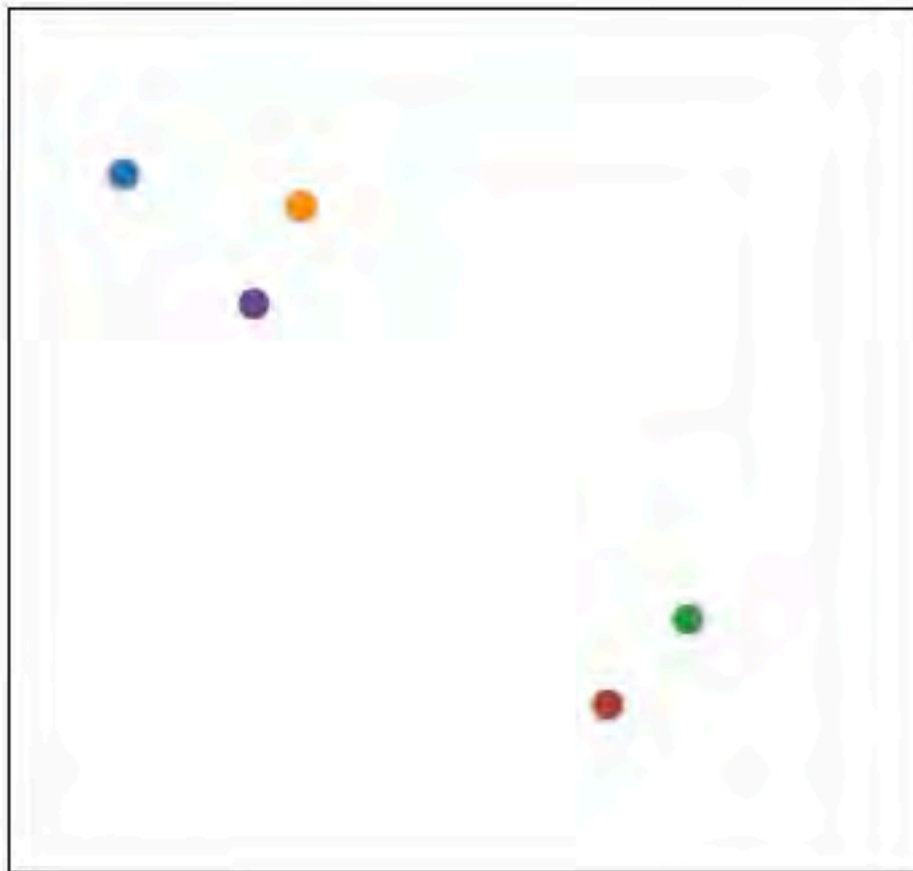


“Hierarchical Clustering”

Scatterplot

Dendrogram

Tree shaped structure used to interpret hierarchical clustering models



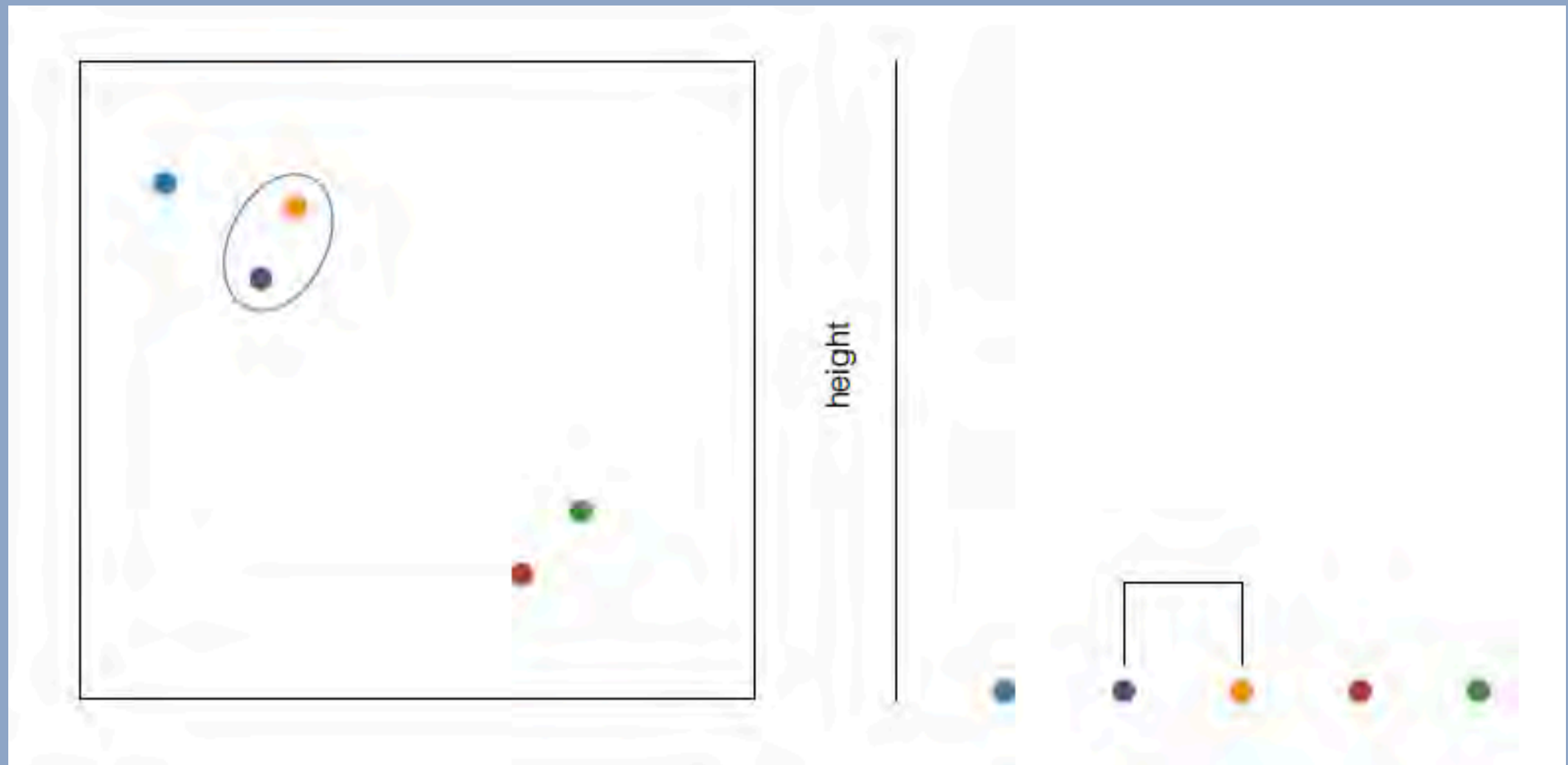
height



“Hierarchical Clustering”

Scatterplot

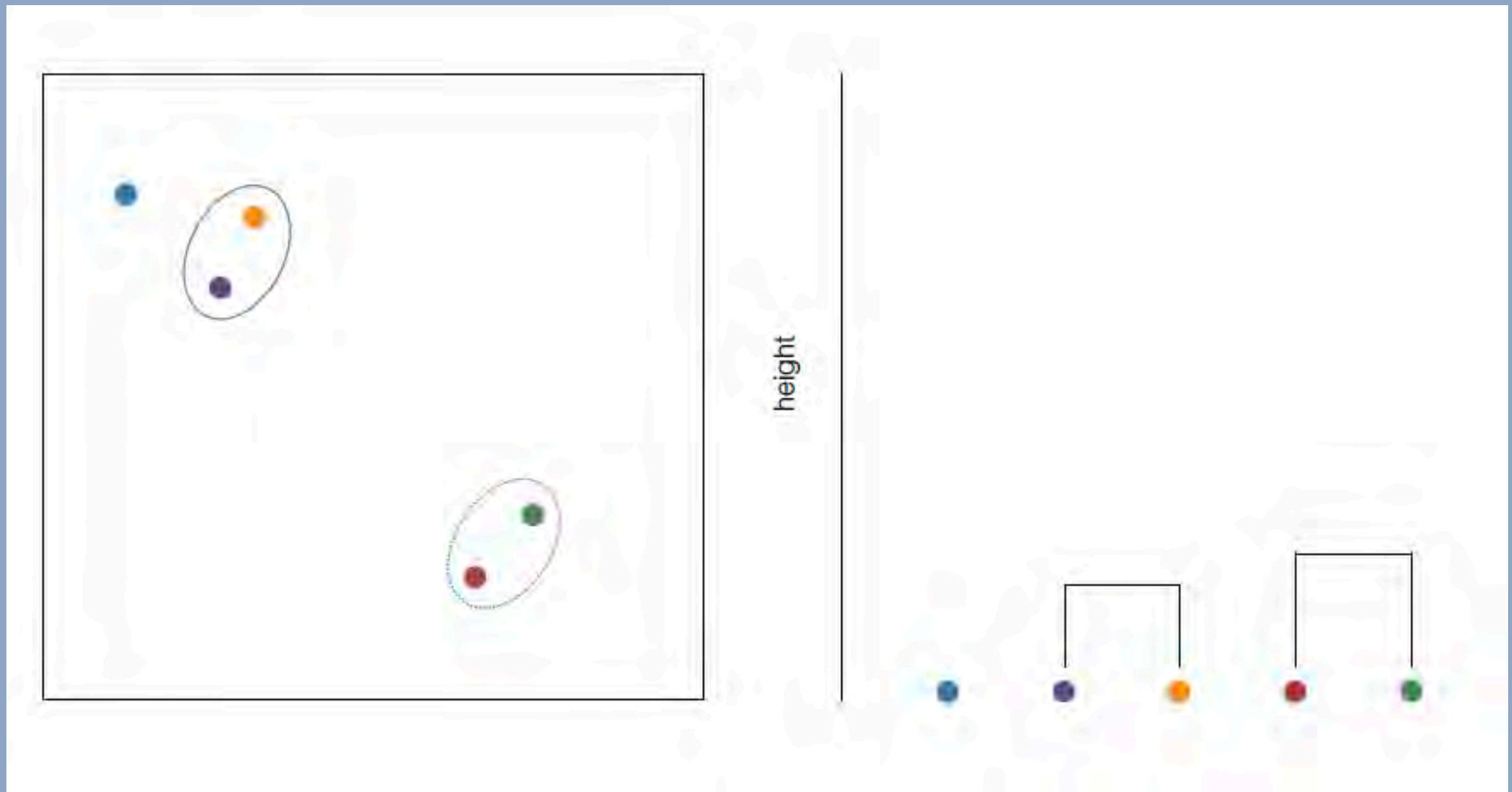
Dendrogram



“Hierarchical Clustering”

Scatterplot

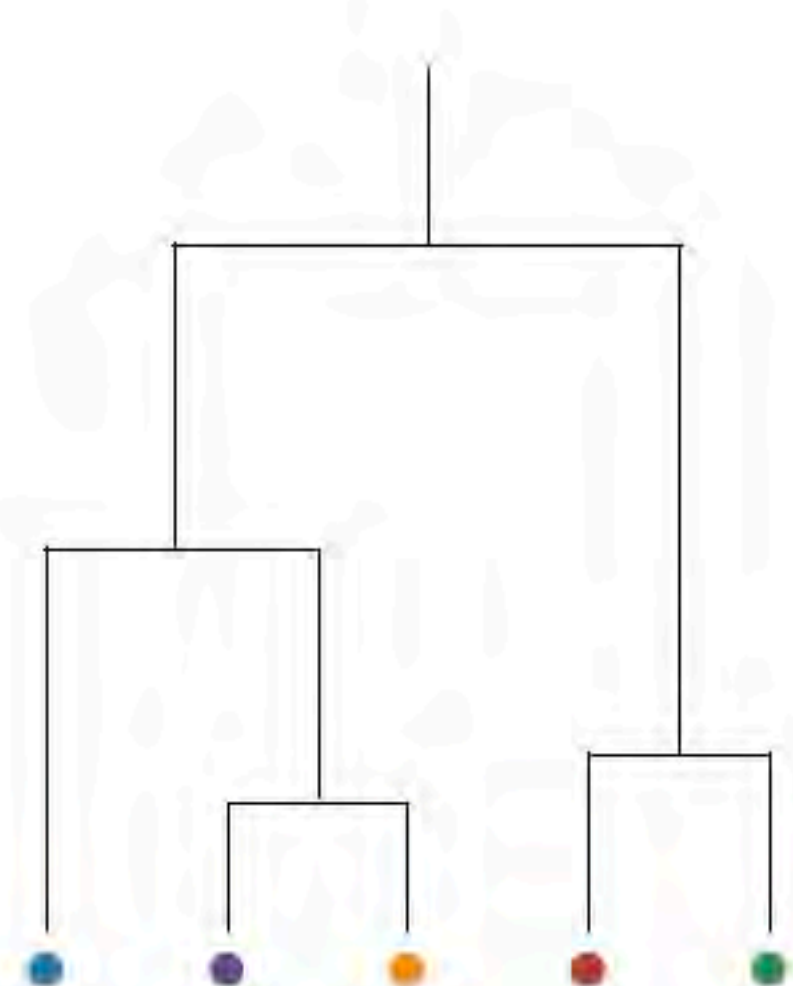
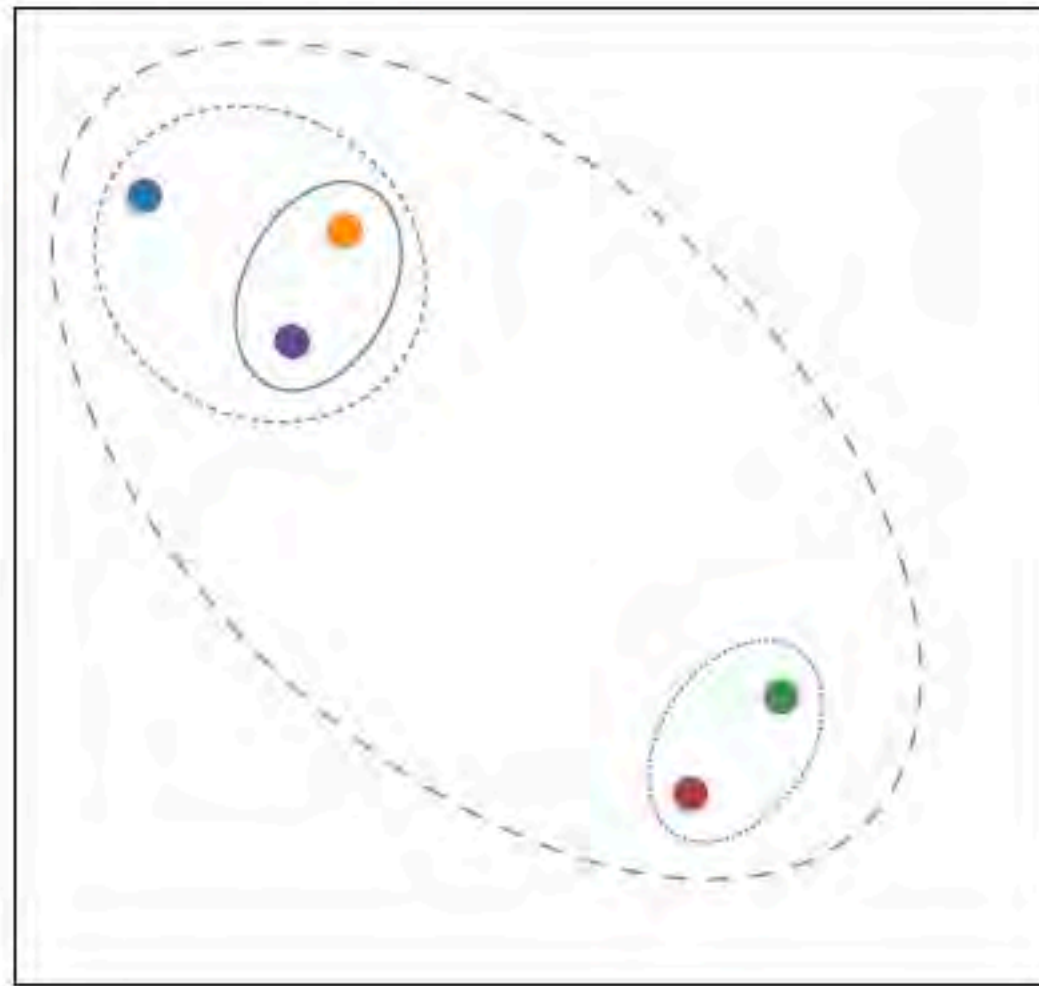
Dendrogram



“Hierarchical Clustering”

Scatterplot

Dendrogram



Statistical Learning

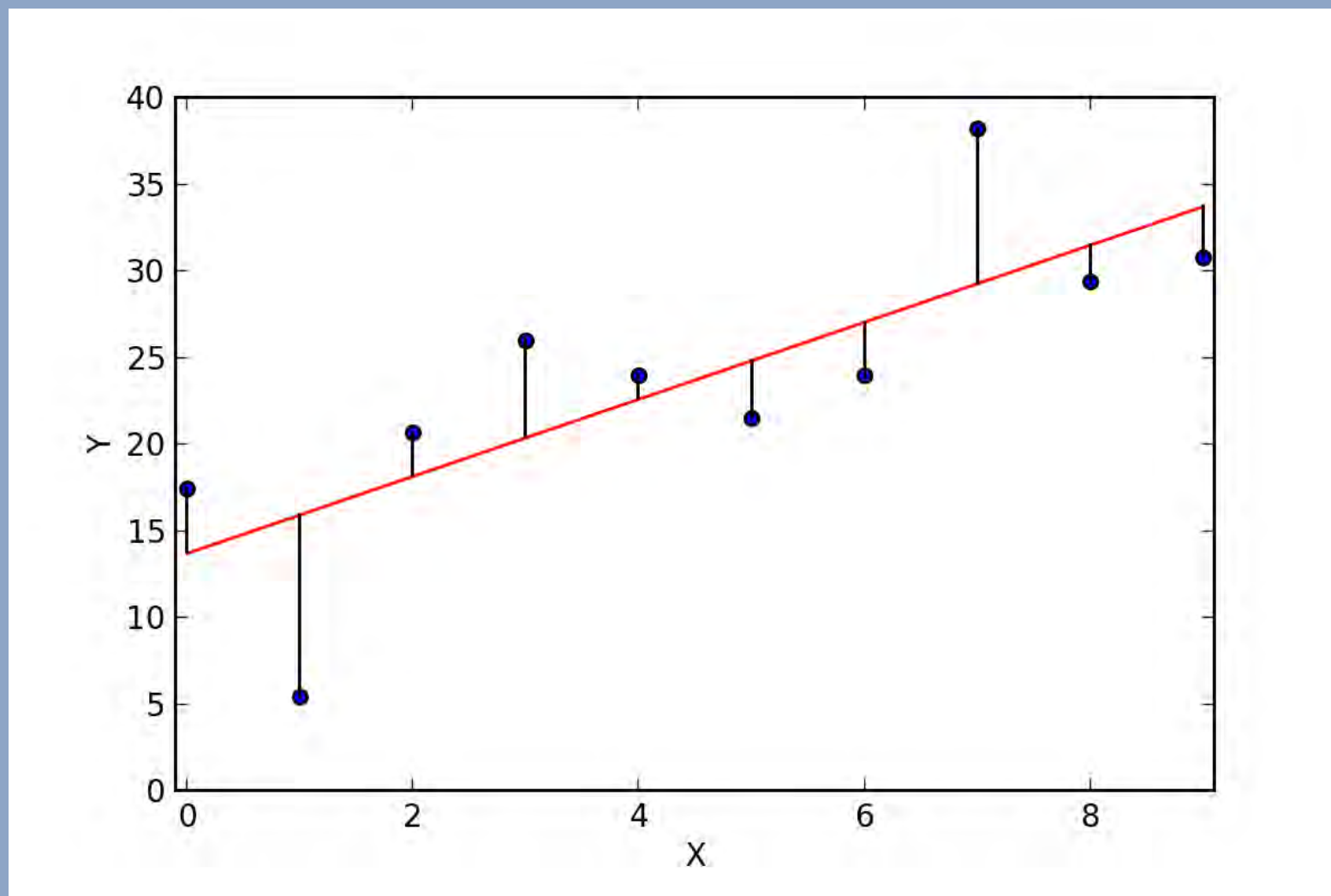
- * **Output Categorizes Data**
- * **The Categories rank similarity**
- * **This tool helps pick the best comps!**

Linear Model

- * Simple Linear Model
- * Regresses Two Variables
- * If data are correlated it can be a useful model to **PREDICT** value.
- * Easy to Understand!
- * Concepts Taught in High School!

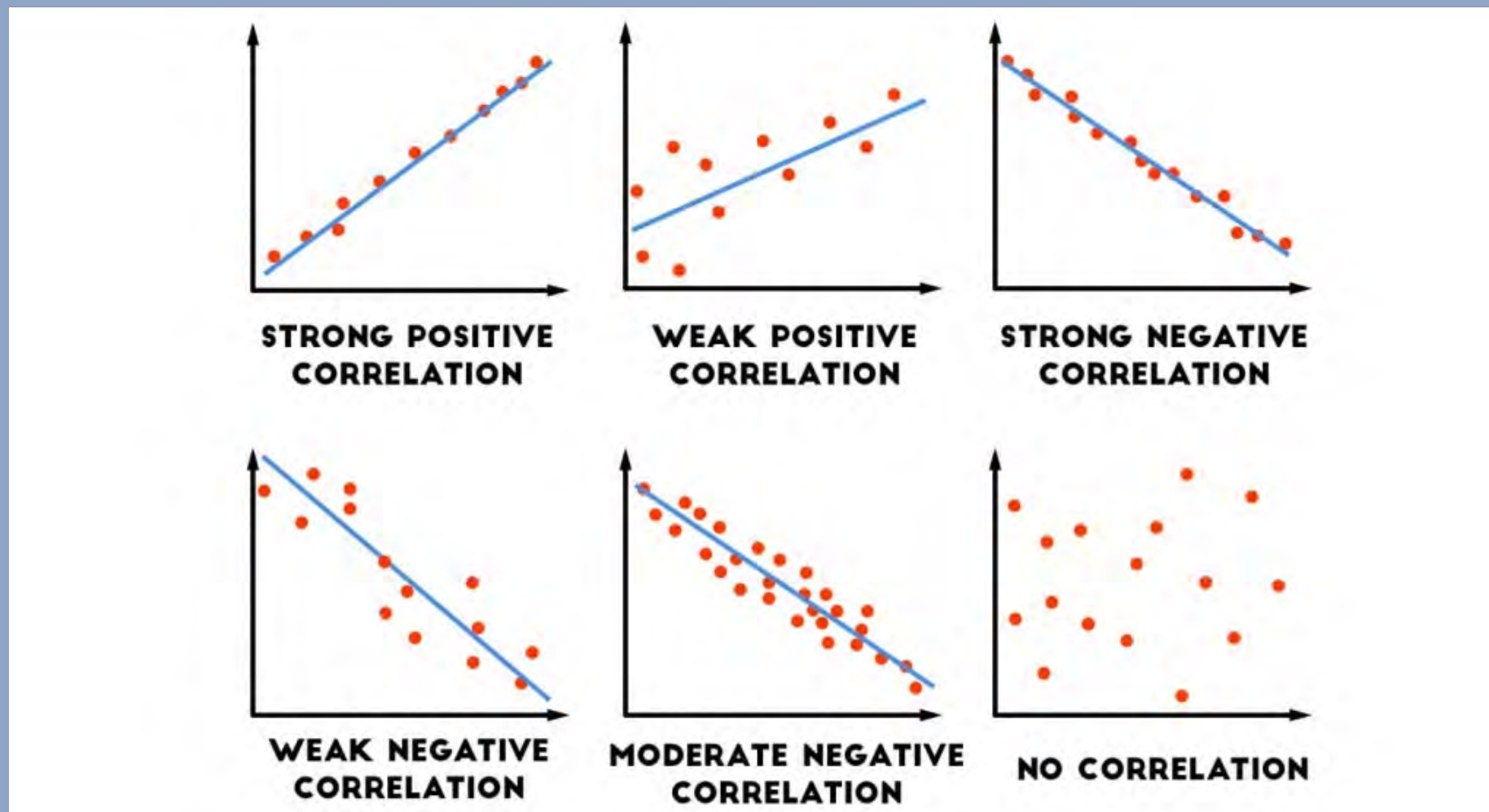
“Linear Regression”

Sum of Squares Error - Difference between predicted and observed



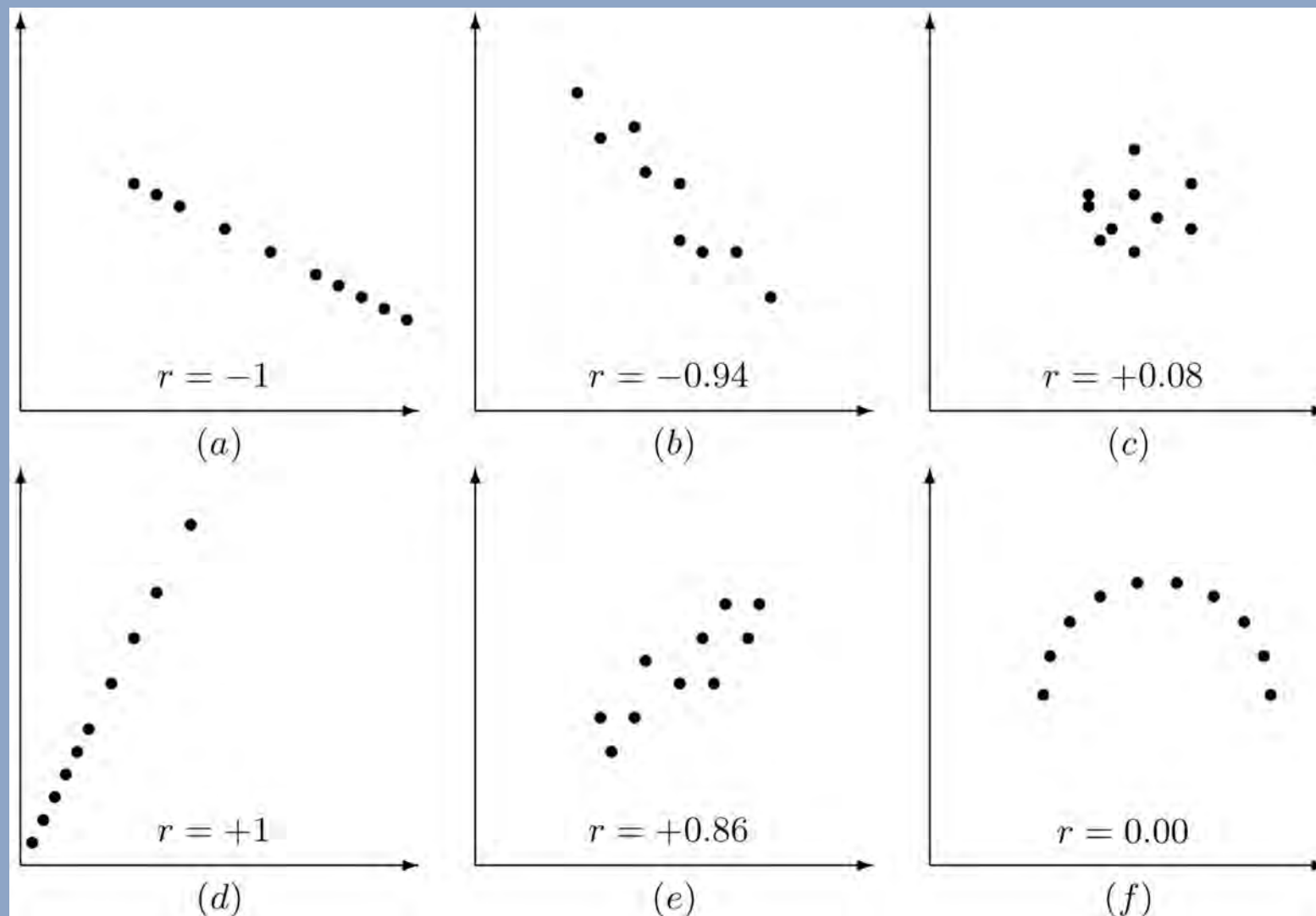
“Correlation”

Summarizes the relationship between two variables.



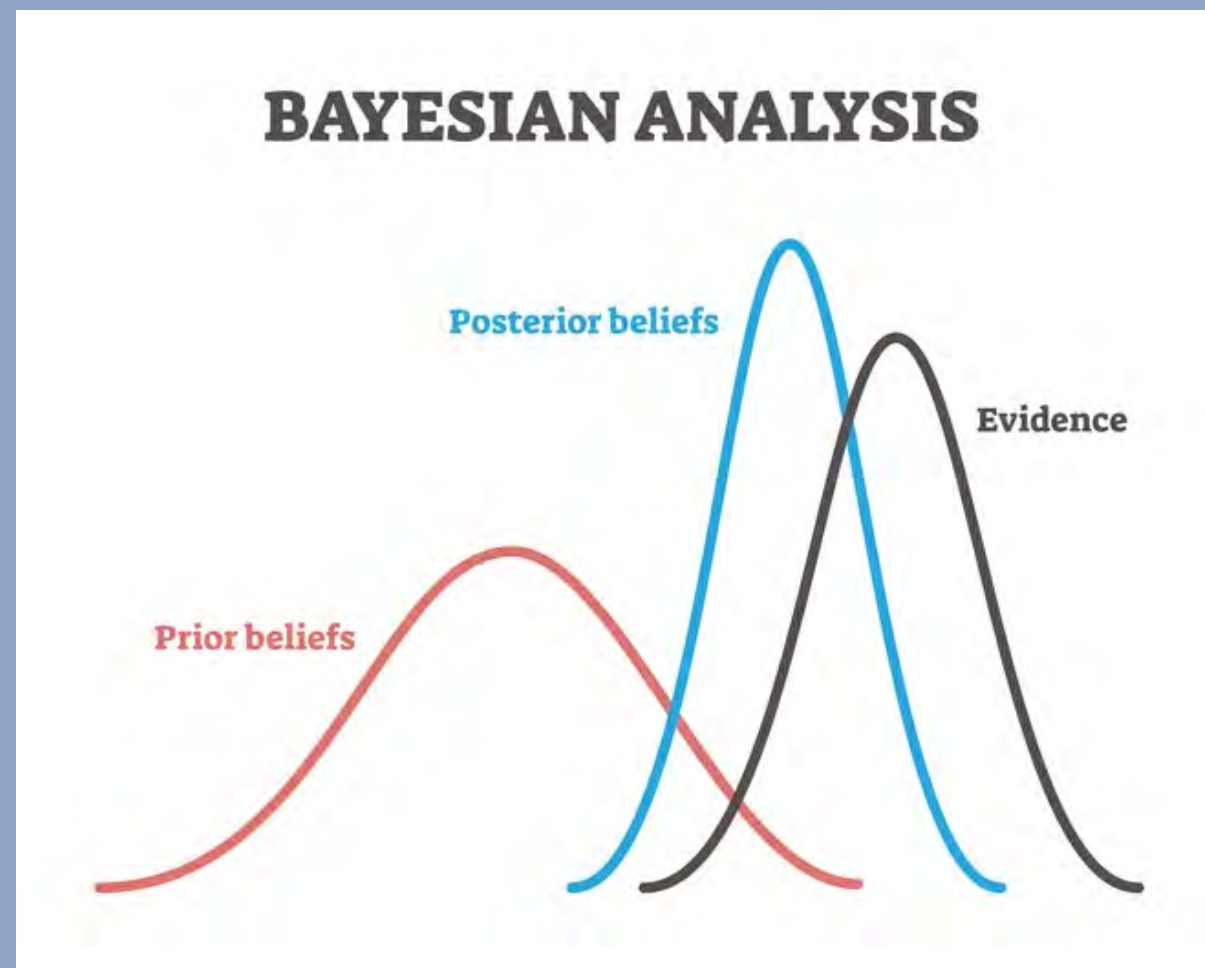
“Correlation”

A number between 0 and 1
Negative or Positive

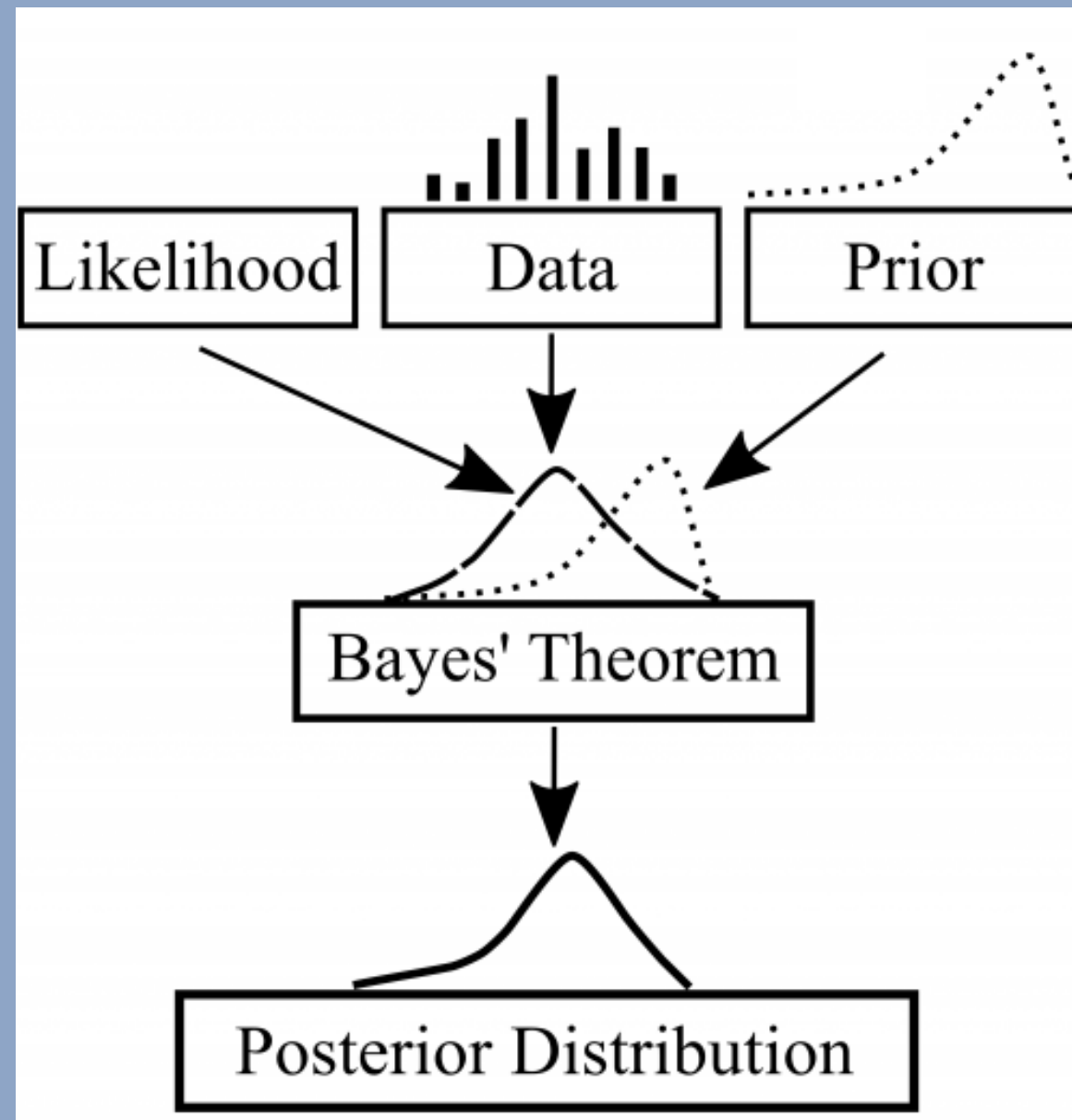


“Bayesian Probability”

Prior Observations & New Evidence
= Posterior Beliefs

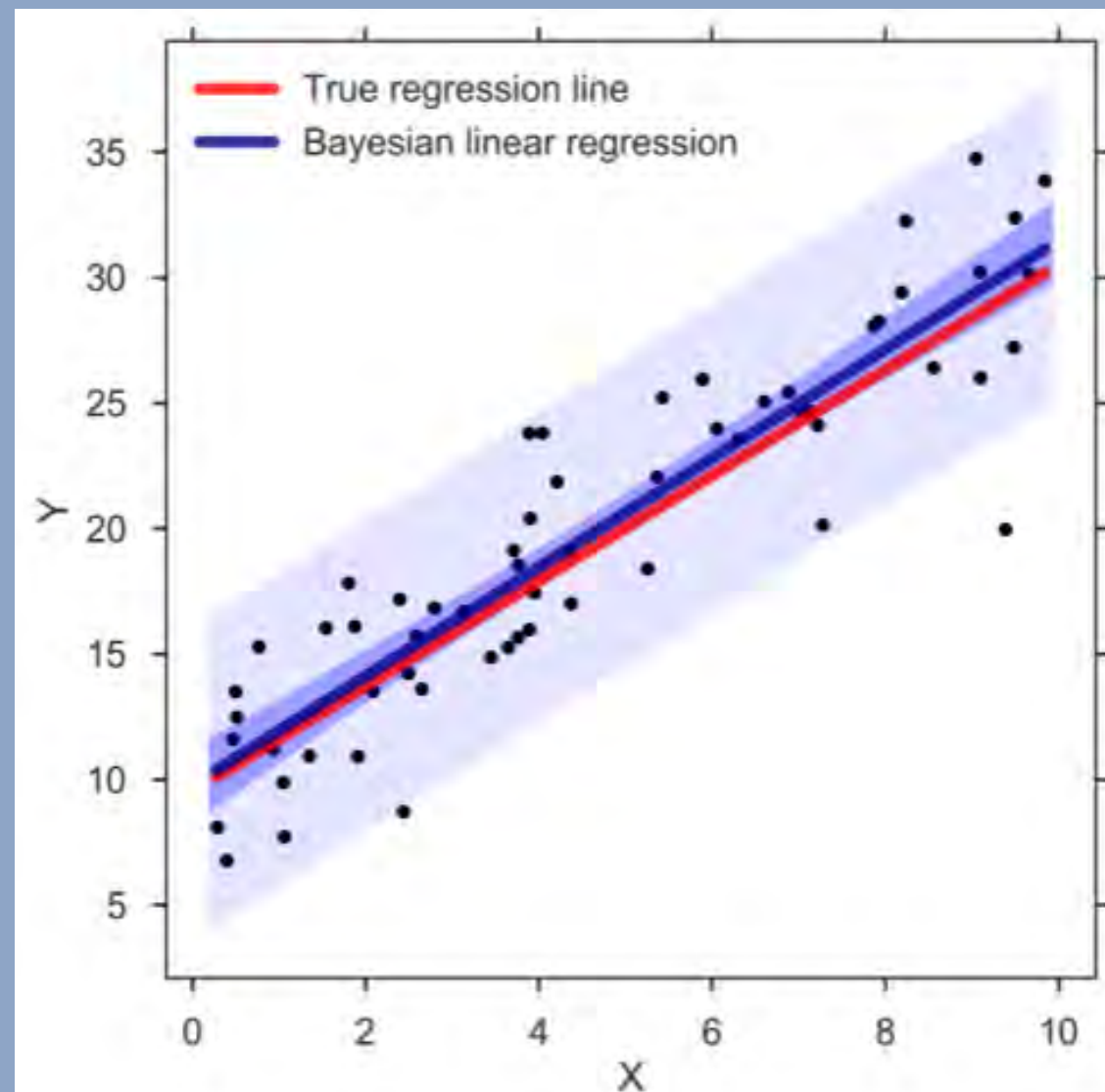


“Bayesian Probability”



“Bayesian Regression”

Adds probability analysis to linear regression analysis



Three Simple Models

- * Two Predict using ALL THE DATA!
- * One Categorizes ALL THE DATA!
- * Each can be measured for fit & reliability.
- * Linear Regression can predict value.
- * Classification indicates best comps.

Make an Action Plan

- * Enhance your valuation skill set.
- * Learn about Data Science.
- * Refresh your knowledge of Statistics!
- * Employ critical thinking to avoid Bias!
- * Transform yourself to an Analyst!

Key Takeaways:

- * **Domain Expertise is critical!**
- * **If we don't someone else will!**
- * **Data is ALL IMPORTANT !!!!!**
- * **Change is inevitable.**
- * **You can do this!**
- * **But it will take effort!!**

GOODBYE Old Friend!

Uniform Residential Appraisal Report

File #

The purpose of this summary appraisal report is to provide the lender/client with an accurate, and adequately supported, opinion of the market value of the subject property.

Property Address

City

State

Zip Code

Borrower

Owner of Public Record

County

Legal Description

Assessor's Parcel #

Tax Year

R.E. Taxes \$

Neighborhood Name

Map Reference

Census Tract

Occupant ☐ Owner ☐ Tenant ☐ Vacant

Special Assessments \$

☐ PUD

HOA \$

☐ per year

☐ per month

Property Rights Appraised ☐ Fee Simple ☐ Leasehold ☐ Other (describe)

Assignment Type ☐ Purchase Transaction ☐ Refinance Transaction ☐ Other (describe)

Lender/Client

Address

Is the subject property currently offered for sale or has it been offered for sale in the twelve months prior to the effective date of this appraisal? ☐ Yes ☐ No

Report data source(s) used, offering price(s), and date(s).

☐ I did ☐ I did not analyze the contract for sale for the subject purchase transaction. Explain the results of the analysis of the contract for sale or why the analysis was not performed.

Contract Price \$

Date of Contract

Is the property seller the owner of public record? ☐ Yes ☐ No

Data Source(s)

Is there any financial assistance (loan charges, sale concessions, gift or downpayment assistance, etc.) to be paid by any party on behalf of the borrower? ☐ Yes ☐ No

If Yes, report the total dollar amount and describe the items to be paid.

Note: Race and the racial composition of the neighborhood are not appraisal factors.

Neighborhood Characteristics

One-Unit Housing Trends

One-Unit Housing

Present Land Use %

Location ☐ Urban ☐ Suburban ☐ Rural

Property Values ☐ Increasing ☐ Stable ☐ Declining

PRICE

AGE

One-Unit

%

Built-Up ☐ Over 75% ☐ 25-75% ☐ Under 25%

Demand/Supply ☐ Shortage ☐ In Balance ☐ Over Supply

\$ (000)

(yrs)

2-4 Unit

%

Growth ☐ Rapid ☐ Stable ☐ Slow

Marketing Time

☐ Under 3 mths ☐ 3-6 mths ☐ Over 6 mths

Low

Multi-Family

%

Neighborhood Boundaries

High

Commercial

%

Neighborhood Description

Pred.

Other

%

Market Conditions (including support for the above conclusions)

Dimensions

Area

Shape

View

Specific Zoning Classification

Zoning Description

Zoning Compliance ☐ Legal ☐ Legal Nonconforming (Grandfathered Use) ☐ No Zoning ☐ Illegal (describe)

Is the highest and best use of the subject property as improved (or as proposed per plans and specifications) the present use? ☐ Yes ☐ No

If No, describe

Utilities

Public

Other (describe)

Public

Other (describe)

Off-site Improvements—Type

Public

Private

Electricity ☐ ☐

Water ☐ ☐

Street

☐ ☐

Gas ☐ ☐

Sanitary Sewer ☐ ☐

Alley

☐ ☐

FEMA Special Flood Hazard Area ☐ Yes ☐ No

FEMA Flood Zone

FEMA Map #

FEMA Map Date

Are the utilities and off-site improvements typical for the market area? ☐ Yes ☐ No

If No, describe

Are there any adverse site conditions or external factors (easements, encroachments, environmental conditions, land uses, etc.)? ☐ Yes ☐ No

If Yes, describe

General Description

Foundation

Exterior Description

materials/condition

Interior

materials/condition

Units ☐ One ☐ One with Accessory Unit

Concrete Slab ☐ Crawl Space

Foundation Walls

Floors

of Stories

Full Basement ☐ Partial Basement

Exterior Walls

Walls

Type ☐ Det. ☐ Alt. ☐ S-Det./End Unit

Basement Area

sq. ft.

Roof Surface

Trim/Finish

☐ Existing ☐ Proposed ☐ Under Const.

Basement Finish

%

Gutters & Downspouts

Bath Floor

Design (Style)

Outside Entry/Exit ☐ Sump Pump

Window Type

Bath Wainscot

Year Built

Evidence of ☐ Infestation

Storm Sash/Insulated

Car Storage ☐ None

Effective Age (Yrs)

Dampness ☐ Settlement

Screens

Driveway ☐ # of Cars

Attic ☐ None

Heating ☐ FWA ☐ HWBB ☐ Radiant

Amenities

Woodstove(s) #

Driveway Surface

☐ Drop Stair ☐ Stairs

Other ☐ Fuel

Fireplace(s) #

Fence

Garage

of Cars

☐ Floor ☐ Scuttle

Cooling ☐ Central Air Conditioning

Patio/Deck

Porch

Carport

of Cars

☐ Finished ☐ Heated

Individual ☐ Other

Pool

Other

Alt.

Det.

Built-in

Appliances ☐ Refrigerator ☐ Range/Oven ☐ Dishwasher ☐ Disposal ☐ Microwave ☐ Washer/Dryer ☐ 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? ☐ Yes ☐ No

If Yes, describe

Does the property generally conform to the neighborhood (functional utility, style, condition, use, construction, etc.)? ☐ Yes ☐ No

If No, describe

Freddie Mac Form 70

March 2005

Page 1 of 6

Fannie Mae Form 1004

March 2005

A cartoon illustration of a tombstone with 'R.I.P.' written on it, set against a blue sky with clouds and green grass. The tombstone is a simple, rounded shape with a cross on top. The letters 'R.I.P.' are written in a large, bold, sans-serif font. The background consists of a light blue sky with a few white, fluffy clouds. The ground is a solid green color, representing grass. The overall style is simple and whimsical.

**We live in a period of
tremendous change!**

We will not be exempted!

We can evolve and thrive!

Commit to learn, adapt and lead!

Become the ANALYST!

Do not rely on black box tools!

No one needs a button pusher!

Demand for expert analysts will increase along with data growth!

Become the **ASSET ANALYST!**

**I believe there is a very
promising future for anybody
that incorporates Data
Science with traditional
appraisal methodology!**

Final Thoughts:

- Have Integrity. Call it the way it is!
- There will always be the need for valuation experts for all property types - particularly SFR!
- Its funny how when you set out to learn how to become an expert it just happens!!
- There are many services you can provide beyond a point opinion of market value!
- Keep building appraisal skillset with courses and experience!

Stay Well Informed

Use Critical Thinking

Tell It the Way It Is!

Be A Professional!

Thanks for your Attention!

- Questions?
- Comments?

**Northern California Chapter
Appraisal Institute**