



The Appraisal
FOUNDATION

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Standards and Appraiser Qualifications

USPAP-Compliant Sample Evaluations and Update on Standards

Appraisal Standards Board Webinar
January 16, 2020

WELCOME AND INTRODUCTIONS

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WEBINAR LOGISTICS

- **Webinar Being Recorded for Viewing on Foundation YouTube Channel**
- **Survey**
- **Q&As / Chat Function**
- **Links to the Sample Evaluations**

USPAP-COMPLIANT EVALUATIONS

BACKGROUND ISSUES

Background

- Evaluations of **real property** are a construct of Title XI of FIRREA
- Evaluations are completed for federally-regulated financial institutions when an appraisal **may** not be required
- The evaluation assignment result is the **market value** of real property in accordance with the federal financial institutions' definition of 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 and knowledgeably, and assuming the price is not affected by undue stimulus.")
- The *Interagency Appraisal and Evaluation Guidelines* (IAEG) provide guidance as to the minimum content to be reported in an evaluation.
- The samples developed for this webinar are based upon the minimum reporting requirements for a Restricted Appraisal Report under Standards Rule 2-2(b) of the 2020-21 USPAP.

Can Evaluations be Completed in Compliance with USPAP?

- Yes. Previous TAF/ASB Webinar: *Performing Evaluations in Compliance with USPAP* (October 11, 2017)
- Advisory Opinion 13, *Performing Evaluations of Real Property Collateral to Conform with USPAP*

Why has the Appraisal Standards Board developed USPAP-Compliant Evaluation Samples?

- The ASB has received a great deal of feedback on this topic.
- The public expressed great support for sample evaluations developed by the ASB at our October 2019 Public Hearing in Washington, DC.

What process did the ASB go through to develop these samples?

- Collected examples of evaluations from a number of lending institutions.
- Studied the RULES, Standards (1 and 2) and Guidance in USPAP.
- Studied the guidance in the *Interagency Appraisal and Evaluation Guidelines* regarding evaluation report content.
- Used the Restricted Appraisal Report samples previously developed as a base and layered in evaluation content items.
- Asked several market participants to review before finalizing.

SAMPLE EVALUATIONS

GENERAL INFORMATION

Sample Evaluations: Residential & Non-Residential

- Two Sample Evaluations (Residential & Non-Residential)
- Developed in compliance with 2020-21 USPAP (effective January 1, 2020)
- Complies with:
 - USPAP Standards Rule 2-2(b) Restricted Appraisal Report minimum content
 - Guidance on evaluation content in the *Interagency Appraisal and Evaluation Guidelines*
- Not intended to be used as a template, only an example

Sample Residential Evaluation (Restricted Appraisal Report)

- Sample notes the following:
 - Subject: Single-unit residence
 - Workfile must be sufficient for the appraiser to produce an Appraisal Report
 - Restricted to use by the client(s) and any other named intended user(s)
 - State most of the content
 - States disclosure of research & analyses performed and might also include disclosure of research and analysis not performed
 - Summarizes results of analyzing the subject sales, agreements of sale, options, and listings
 - States the methods & techniques, reasons for excluding approach(es)

Sample Non-Residential Evaluation (Restricted Appraisal Report)

- Sample notes the following:
 - Subject: Industrial building
 - Workfile must be sufficient for the appraiser to produce an Appraisal Report
 - Restricted to use by the client(s) and any other named intended user(s)
 - State most of the content
 - States disclosure of research & analyses performed and might also include disclosure of research and analysis not performed
 - Summarizes results of analyzing the subject sales, agreements of sale, options, and listings
 - States the methods & techniques, reasons for excluding approach(es)

Excerpts of Sample Evaluations – Residential

SAMPLE RESIDENTIAL EVALUATION (RESTRICTED APPRAISAL REPORT)

This sample residential Evaluation is completed as a Restricted Appraisal Report in compliance with USPAP Standards Rule 2-2(b) and the *Interagency Appraisal and Evaluation Guidelines*.

Use of this Restricted Appraisal Report is limited to the client and other named intended users. This report contains information sufficient to convey the results of the evaluation to the client who is the only intended user. However, this report may not contain supporting rationale for all of the opinions and conclusions set forth in the report.

SUBJECT ADDRESS: 100 Oak Street, Anyville, Georgia 11111

PROPERTY TYPE: Single-story, 1,200 square foot, single-unit residential dwelling on a 0.50-acre lot

CLIENT: ABC Bank, 100 Market Street, Anywhere, New York 22222

INTENDED USE: Credit decision-making for a real estate-related transaction. This report is not intended for any other use.

Excerpts of Sample Evaluations – Residential

OPINIONS AND CONCLUSIONS

HIGHEST AND BEST USE: Continued use as a single-unit dwelling. The dwelling contributes value to the site, and conversion to an alternative use would not be legal.

EXPOSURE TIME: The value is based upon a reasonable exposure time of 60-90 days.

EFFECTIVE DATE: February 2, 2020

SALES COMPARISON APPROACH: Three sales of single-unit dwellings in the subject's subdivision were deemed sufficiently comparable to the subject to be used in the sales comparison approach.

	Subject	Sale 1	Sale 2	Sale 3
Address	110 Oak St.	141 Oak St.	124 Beech St.	118 Beech St.
City	Anyville	Anyville	Anyville	Anyville
Sale price	N/A	\$242,000	\$275,000	\$254,000
Concessions	N/A	None	\$5,000 Seller- assisted financing	None
Sale date	N/A	01/22/2020	01/10/2020	12/20/2019
Location	Tree Hills	Same	Same	Same
Site size	0.5 acre	0.5 acre	0.48 acre	0.5 acre
Age (yrs.)	10	11	6	9
Condition	Good	Good	Good	Good
GLA (SF)	1,200	1,080	1,500	1,260
Overall comparison to subject	N/A	Inferior	Superior	Superior

Sales 1 and 3 are the most similar to the subject in age and GLA. Sale 1, at \$242,000, is rated inferior to the subject, and Sale 3, at \$254,000, is rated superior to the subject. The subject is most similar to Sale 3, therefore the indicated value is reconciled closer to the indication of Sale 3. The indicated value by the sales comparison approach is **\$250,000**.

Excerpts of Sample Evaluations – Non-Residential

SAMPLE NON-RESIDENTIAL EVALUATION (RESTRICTED APPRAISAL REPORT)

This sample non-residential Evaluation is completed as a Restricted Appraisal Report in compliance with USPAP Standards Rule 2-2(b) and the *Interagency Appraisal and Evaluation Guidelines*.

Use of this Restricted Appraisal Report is limited to the client and other named intended users. This report contains information sufficient to convey the results of the evaluation to the client, who is the only intended user. However, this report may not contain supporting rationale for all of the opinions and conclusions set forth in the report.

SUBJECT ADDRESS: 123 Elm Street, Anytown, Ohio 11111

PROPERTY TYPE: One-story, 27,264 square foot, light industrial building on a 2.29-acre parcel of land

CLIENT: ABC Bank, 100 Market Street, Anywhere, New York 22222

INTENDED USE: Credit decision-making for a real estate-related transaction. This report is not intended for any other use.

Excerpts of Sample Evaluations – Non-Residential

INCOME CAPITALIZATION APPROACH: The direct capitalization approach was used to develop a market value opinion for the subject property. The actual rent in place was used in the following pro forma. The rent is supported by information from lease comparables (\$6.75 to \$8.00/SF) and asking rents for vacant space (\$7.00 to \$8.50/SF) located in the same industrial park, based upon information obtained from local leasing brokers.

Summary of Rent Comparables			
Rent/SF	Size (SF)	Address	Lease Start
\$ 7.50	28,500	124 Elm Street	Nov-19
\$ 6.75	35,000	214 Elm Street	Aug-19
\$ 8.00	23,675	105 Birch Street	Aug-19
\$ 7.00	31,333	300 Larch Lane	Feb-19
\$ 7.25	28,000	180 Pine Avenue	Dec-18
\$ 7.00	34,235	163 Pine Avenue	Asking
\$ 7.75	25,600	122 Elm Street	Asking
\$ 8.50	20,100	412 Elm Street	Asking

The rent comparables were constructed within 5 years of the subject property, have similar physical attributes, and similar land-to-building ratios. All were noted to be in average condition, similar to the subject.

Excerpts of Sample Evaluations – Non-Residential

The expense reimbursement structure for the subject and all of the market comparables is mostly net, with the tenant responsible for all operating expenses except management fees and replacement reserves. An 8% vacancy and collection loss was concluded based upon market occupancy levels and investor surveys. Expense conclusions were based upon an examination of the subject's historical expenses and interviews of local investor-owners of similar properties. The overall capitalization rate was concluded after examining the band of investment method, data from national surveys, and rates extracted from recent sales of similar properties.

	Area Leased			\$/SF	
Rent	27,264	SF	at	\$ 7.50	= \$ 204,480
Expense Reimbursements				\$ 2.67	\$ 72,811
Potential Gross Income				\$ 10.17	\$ 277,291
Vacancy & Collection Loss			8% of PGI	\$ (0.81)	\$ (22,183)
Effective Gross Income				\$ 9.36	\$ 255,108
Expenses:	Annually	\$/SF	% of EGI		
Real Estate Taxes	\$ 28,000	\$ 1.03	11.0%		
Building Insurance	\$ 5,453	\$ 0.20	2.1%		
Repairs & Maintenance	\$ 16,358	\$ 0.60	6.4%		
Utilities	\$ 23,000	\$ 0.84	9.0%		
Management Fee	\$ 10,204	\$ 0.37	4.0%		
Other	\$ -	\$ -	0.0%		
Reserves for Replacement	\$ 2,726	\$ 0.10	1.1%		
Total Expenses	\$ 85,742	\$ 3.14	33.6%		\$ 85,742
Net Operating Income					\$ 169,366
Capitalization Rates	Rate(s)				
Band of Investment	9.00%				
Market Extraction	8% to 11%				
National Surveys	7% to 9.50%				
Concluded Capitalization Rate					9.50%
Indicated Value (NOI/Concluded Cap Rate)					\$ 1,782,800
Rounded					\$ 1,780,000
Value/SF					\$ 65.29

Indicated value by income capitalization approach (rounded): \$1,780,000

Reconciliation:

Sales Comparison Approach: **Not developed**

Cost Approach: **Not developed**

Income Capitalization Approach: **\$1,780,000**

Excerpts of Sample Evaluations – Non-Residential

ASSUMPTIONS AND LIMITING CONDITIONS

This assignment was conducted, and this report presented, subject to the following assumptions and limiting conditions. The use and acceptance of this report indicates that the client accepts these assumptions and limiting conditions.

(Assumptions and limiting conditions will vary by appraiser and by assignment.)

CERTIFICATION

I certify that, to the best of my knowledge and belief:

- the statements of fact contained in this report are true and correct.
- the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
- I have performed no (or the specified) services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding the agreement to perform this assignment.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- my engagement in this assignment was not contingent upon developing or reporting predetermined results.
- my compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- I have (or have not) made a personal inspection of the property that is the subject of this report.
- no one provided significant real property appraisal assistance to the person signing this certification. (If there are exceptions, the name of each individual providing significant real property appraisal assistance must be stated.)

(Insert additional certifications as needed, such as those required by a professional association.)

Appraiser's name and signature

Date of report

Appraiser's contact information

ADDENDUM

Attach any relevant addenda items including photographs, maps, subject property financial statements, or other materials.

UPDATE ON STANDARDS

Planning for the future

Seeking Feedback on Potential Changes for 2022-23 USPAP

- Stakeholder Survey
 - Revisiting the Single Reporting Standard
 - Significant Assistance
 - Clarifying Definitions
- Exposure Draft to be issued by mid-February

We want to hear from you!

- **First Exposure Draft of Proposed Changes for 2022-23 – February 2020**
- **Submit comments:**
ASBComments@appraisalfoundation.org
- **ASB Public Hearing – April 3 in San Antonio, TX – Register for Livestream:**
https://zoom.us/webinar/register/WN_EHuGBr7FQHK_7ddjsQQQmg

Thank you!

Communicating with the Foundation and its Boards is easy

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