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### **AMCs tell all to residential appraisers**

**By Joe Lynch**

*Editor's comments:* This is the fourth year for this annual all day seminar, Residential Symposium. I have attended three of the four sessions, which focused on AMCs. Most of the speakers are from AMCs. Although many appraisers work for AMCs, most do not know much about their businesses. The seminars also cover topics important to appraisers, such as Big Data and the future of appraising. I send out an ad to all my free email subscribers every year for this annual seminar. This was the best one I have attended.

*Author's note:* I decided not to focus on appraisal reports on August 5 and instead went down to the East Bay to the Northern California Chapter of the Appraisal Institute Residential Symposium organized by Denis DeSaix and Paul Chandler.

About 40 residential appraisers listened to a rotating group of speakers over seven hours. The day started with staffers from two local AMCs discussing how orders are assigned and priced. Then their bosses went up and discussed the AMC business model in some depth. Some details mentioned:

- AMCs generally offer base prices to lenders (known as "TRID Pricing") so lenders know how much to charge their borrowers. This is key because TRID does not allow for the borrower to be charged more.
- Certain lenders have "bandwidths of clients," or clients that generally come from similar markets/neighborhoods/etc., implying that a single fee will make sense.
- Other lenders with non-conforming borrowers work with tiered pricing
- The 4 AMCs represented, Apple Appraisal, Axis Appraisal Management, Got Appraisals, and

Property Science reported collecting 21-27% of the total appraisal fee charged to a borrower. (Wow, disclosed in public)

- AMC's are working on bringing trainees back in the mix. Trainees will be allowed by banks to work on appraisals. US Bank, Wells, and Quicken all allow trainees. More should soon.
- The AMC's offered their rationale for why they should exist (client/appraiser matching, QC function, management of the process).

Personal Editorial- I don't see why these services should cost the appraiser more than 5%, if anything, depending upon the quality of the appraiser, because direct clients don't charge the appraiser for these services. Why should a seasoned appraiser pay for someone else's management function/process?

AMC fees should come from the client, period. There should be no difference in what a direct client pays for an appraisal and what an AMC pays.

The funny thing about the symposium was that the AMC representatives were talking to folks who probably don't work with them much. Only one of the appraisers in the room had less than 10 years of experience. Maybe next year the symposium will attract front-line residential appraisers who work with these companies more often.

### **The Future of Appraising/Big Data**

Steve O'Brien, a panelist from House Canary, discussed the future of appraising. He said that we will see new forms in 1-3 years.

The forms and process have been developed, but FNMA, Freddie, FHA, and VA all have to get on board with the new forms, which will take time. The new form will be in the cloud and will be computer interactive and built for data collection and readability.

The example he gave was if the appraiser says yes to the accessory dwelling checkbox, then the online form opens up options to describe the accessory dwelling. A la mode's new software sounds like a transitional step between this new vision of how we do reports.

House Canary is a company that will provide data analysis tools for the real estate industry to help understand their markets better. It is just one of many new systems coming out with most built around GIS (geographical information systems).

For example, pull up a map of a neighborhood and you see a heat map of sale prices showing different possible influences (different builders, different locational influences, etc.). Another example given is that soon, if not now, systems will be able to give you a sense of how loud the freeway is one block away vs. four blocks away.

Another panelist, Mike Simmons from Axis Appraisal Management, talked about Big Brother Appraising. Very soon (less than 5 years) the world will be covered by miniature satellites that will offer real time continuous viewing of homes.

We might have future team appraising where someone visits the home wearing virtual reality glasses, looks around the home, and broadcasts the video back to the client. Someone called this Uber inspecting...sounds like a good way to put a trainee to work.

### **Near Future and Potential Threats**

Jeff Bradford from Bradford Technologies discussed Near Future and Potential Threats.

First American has bought ACI and Forsythe Appraisals. Core Logic has bought Rels, Landsafe, and FNC.

Both of these companies will come up with new appraisal processes that will likely compete for lender appraiser work. New applications of Big Data.

Australia has very different appraisal models with a lot less work required to complete a report. These countries are starting to shift to the Big Data world of appraising and may be an example of our future. However, Australia also has a very different model for collateral (you can't walk away from a

mortgage in Australia), so the importance of understanding the collateral and associated risk is much higher here in the States. Desk appraisals that work well in Australia likely won't work here.

Expect more change soon in the residential appraisal world.

### **Appraiser Liability**

Steven Geller, MAI, Esq., is a lawyer who is also an appraiser. A big part of his practice is to represent appraisers when they get sued.

He strongly recommended getting a lawyer (him) when you get that first notice of a lawsuit or complaint from BREAA (California state appraiser regulator). He then calls your E&O company and sees what coverage you have and represents you. I was really impressed by him. Keep this in mind if you ever run into trouble...

Geller provided three case studies for our review based on cases he has worked on. In one case, an appraiser lost his license because he hit a minor on a bike and left the scene after making sure the minor was ok. The minor's parent filed a complaint with the police, the appraiser went to jail, and BREAA refused to renew his license. Don't leave the scene of an accident folks.

The second case was a drive-by on acreage. The home was not visible from public roadway so the appraiser completed the drive-by based on public records. It turns out the home was never completed and the appraiser did not visit the building department to confirm. For unknown reason, the homeowner submitted the appraisal to BREAA and the appraiser received a citation. Don't do drive-bys if you can't see the property. Geller strongly suggested not doing drive-bys at all.

The third case involved an appraiser (certified residential) and his associate (licensed) who worked together for 20 years. The associate handled most of the day to day work. Sometimes both went to inspect, sometimes just the associate went to inspect.

The certified residential appraiser is listed as supervisory appraiser on all reports. The associate submitted his upgrade application to BREAA and removed the supervisory appraiser's signature without the supervisory appraiser's knowledge and submitted those reports as work samples. BREAA reviews the reports and receives original copies from other sources and sends out investigation letters to both appraisers.

The certified appraiser tells the associate not to use his signature on reports and goes on vacation. Of course, the associate continues to use the certified appraiser's signature and when the certified appraiser finds out, he fires the associate. Don't let someone else access your license or digital signature. Have a written agreement in place detailing the working relationship of people who work for you. If someone leaves your firm, have them leave behind all software.

### **Appraisal Review - Eliminating Compliance-Risk from Your Report**

The day ended with great practical advice from Jared Mickel, reviewer for value360 and REAA Sacramento member, and REAA East Bay's Denis Desaix.

Jared went through how to work with an AMC in the best possible way. He discussed the process and different levels of review, described below.

### **AMC Review Process**

1. Administrative - This is a quick, non-appraiser, checklist or automated checker type review focusing on completeness, accuracy and consistency. It's all about speed.
2. Technical/Underwriter - This is when an appraiser or underwriter actually reads the appraisal. The report is checked for adequacy, relevance, completeness, assumptions. It's about quality.
3. Investor - This after funding (late) and can be a mixed bag of content. The loan has funded, your client now tries to sell the loan and the investor who is lined up to buy the loan has questions. It's all about

being professional. It's key to reply to these requests in a timely basis because the clock is ticking, but it's very important to be professional in your response. Take a look at the request and make your best reply.

Why is it important to know where the revision request is coming from? So you can answer in the appropriate way.

**Administrative - quick correction, be minimal. That's all that's expected.**

Technical or Investor - be quick in your reply, but be professional and treat the request seriously. Go back and see if you made a mistake. Clarify if you were vague. Then Jared had a couple of his famous appraisal head scratchers. My favorite is the \$40,000 half bath adjustment.

**Top 10 List of Common Appraisal Failures by Denis Desaix**

10. Purchase Agreement and Prior Sale Analysis-actually analyze the contract.
9. Purchase Price not consistent with Market Value-Why is value different from contract price? See USPAP FAQ 231 and 29.
8. Summarize the Zoning
7. Summarize the Highest and Best Use
6. Adjustments: Credible and Reasonable (sounds like a class Denis)
5. How did you arrive at your value? How strong or weak was your data? Which comparables were most indicative? What's your thinking behind the number you landed on?
4. Make your 1004D Update reports USPAP compliant. There's a lot of stuff to add to the FNMA 1004D Update form to make it USPAP compliant.
3. GRMs and 2-4 Units (he skipped this one for time)-Use the GRM when you appraise 2-4 units.
2. Support your Site Valuation in the Cost Approach
1. Be Captain Obvious! Do not assume that the client/intended user will pick up what is obvious to you!

**Final comments**

This was probably the best one-day appraisal seminar I've ever attended. I will definitely go next year.

Thanks to Denis DeSaix, Paul Chandler, and the Northern California Chapter of the Appraisal Institute for a truly useful event.

**About the author**

Joe Lynch, Certified Residential Appraiser, Real Estate Appraisers Association, Sacramento Chapter President

Joe is a certified residential appraiser in Northern California and is president of the Sacramento Chapter of the Real Estate Appraisers Association.

He teaches appraisers how to use Excel and is lucky enough to occasionally assist George Dell in classes.

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**Real Estate Damages, third edition - an excellent appraisal book By Randall Bell, PhD, MAI**

I have been reading Randy Bell's Damages books since the first edition, published in 1999. He became famous by appraising the infamous O. J. Simpson condo where Nicole- Simpson was murdered. Recently

there was a short series about it on television. I have known about Randy Bell's expertise for many years.

### **About Randall Bell**

In an issue of my free email newsletter, I had excerpts from a recent newspaper article:

"Randall Bell is the answer to this trivia question: What do the residences of Sharon Tate, Nicole Brown-Simpson, Jeffrey Dahmer, Sandy Hook shooter Adam Lanza, and San Bernardino shooters Syed Farook and Tashfeen Malik have in common? "

"For 30 years, Bell has been an appraiser of real estate stigmatized by human killers, natural disasters and high-profile accidents. It's a niche that has earned him four book deals, speaking gigs, teaching assignments, homes in Laguna Beach and Coto de Caza, and valuable space in the Rolodexes of attorneys, other real-estate professionals and the media."

"His career exploded thanks to ... a sentence about him helping Dana Point's Lou Brown sell his slain daughter's condo appeared in the Los Angeles Times' "Hot Properties" column during O.J. Simpson's 1995 murder trial."

"I swear the whole world called ... I had no idea it would be so huge. That was the tipping point. It was just luck."

"Bell initially gravitated toward real-estate development, learned appraising and was about to go to Whittier Law School when he had an "epiphany" in the pool of (his) home. Instead of fixating on what made real-estate values rise like everyone else, he figured, it would be far more interesting to learn why values drop. He faxed Whittier Law the first day of school to drop out. "It totally shocked everyone," Bell recalls. "I thought it was a good decision, but it was very risky."

"The risk paid off, opening up a career that has him bouncing all over the planet, from nuked Chernobyl to earthquake-ravaged Alaska to post-Katrina New Orleans to methane-gassed Porter Ranch to flooded Malibu, Kauai and Florida to the Marshall Islands to investigate lingering radiation from the hydrogen bomb tests of the 1950s. He has even appraised properties said to be spooked by ghosts.

"Asked if others do what he does, Bell paused a long time before answering, "A couple do . . . part-time."

Link to article:

[www.ocweekly.com/news/randall-bell-made-millions-appraising-the-real-estate-of-infamous-homes-7045571](http://www.ocweekly.com/news/randall-bell-made-millions-appraising-the-real-estate-of-infamous-homes-7045571)

### **What is in the book?**

The 505-page book is very well written with many case studies and examples. It is not like a text book. Instead, it is not written in an academic style and is very readable and practical. Many appraisal methods are used, such as comparable sales, statistical analysis,

Case studies are used to illustrate issues such as transactional conditions, Distress and Sociological conditions, legal conditions, external conditions, etc. There is an index, often missing from Appraisal Institute books.

The acknowledgements section in a book is usually boring with a list of names. Bell gives how people helped him getting started, developing seminars, how watching a TV show on the Alaskan Earthquake of 1964 affected him, and many other personal examples.

Many appraisal books start with basic appraisal topics and just repeat what is said in beginning appraisal textbooks. This book covers the topic but discusses many of them in a more practical and interesting writeup. When reading the book, I never knew what would be discussed in a "basic" appraisal topic.

For example, in the research section, Bell gives good examples of questionnaire's sent to real estate

brokers, home owners, etc.

The research methods section is very good, covering topics such as Hereneutics: utilizing published texts, Phenomenology: verification of surveys, etc. I got many good tips from this section. Standard methods such as adjustment grids, experience and "common sense" also include many good tips, which I had never heard before. Statistical methods illustrated throughout the book, using practical examples.

There is a very good 15-page Chapter 12 on completing a reliable damage analysis. "The field of real estate damage economics has evolved considerably over the past two decades. Continued growth is inevitable... USPAP's Advisory Opinion 9 focuses on environmental conditions.

There are many graphics and illustrations, including the well known "Bell Chart" with 10 categories of detrimental conditions.

Practical discussion of using the Three Approaches is in the book.

### **What is in the book, from the publisher's writeup, including changes from previous editions.**

- Basic tools for detrimental condition analysis
- A review of the ten classifications of detrimental conditions
- Straightforward approaches to solving complex valuation problems with added discussion of the September 11th terrorist attacks, the 2004 tsunami and Hurricane Katrina
- New case studies on landslides, infestation, mold and construction defects
- Updated and expanded listings of reference works and relevant agencies, associations and online resources.

### **Residential case studies**

Many of the case studies are for commercial properties, but there are residential as well. Here are some of them:

- Feng Shui
- Santiago Landslide
- Simpson Condominium
- Bruce McNall House - white collar crime
- Beverly Hills Estate - Building construction defects and water damage
- Krantz House - Subsurface construction condition

### **Non-residential famous case studies**

- Three Mile Island
- Oklahoma Federal Building
- Exxon Valdez Oil Spill
- Dahmer Apartment Building
- September 11
- Sandy Hook
- Love Canal

### **Should you buy this book?**

No appraisers specialize in the types of properties than Bell appraises, so it is not a "how to" book. Instead, it is filled with ideas for appraising all properties, with topics that apply to all appraisals.

Even if you have never appraised a home where there was a major crime, the book is very interesting. Also, it helps you when you are asked to appraise damaged properties. You will know the issues and methods to use. Of course, it also helps to help you know when to turn down an assignment. I have done

a few appraisals of damaged properties.

If you ever appraise a home where there was a murder, buy his book. An appraiser I know accepted an assignment to appraise the home of a well known murder for a lender. He said that Bell's book was invaluable. He also interviewed appraisers, agents, etc. His web site is [www.landmarkresearch.com](http://www.landmarkresearch.com)

I have never appraised a home where there was a murder, but I have appraised damaged homes for litigation.

### **Additional authors**

All three authors are with Bell, Anderson & Sanders LLC, in Laguna Beach, Calif. Their firm specializes in damage economics, valuation and expert witness testimony related to environmental and geotechnical issues, natural disasters, eminent domain and other detrimental conditions.

In addition to Bell, the authors are Orell C. Anderson, MAI and Michael V. Sanders, MAI.

The book is very well done for a book with multiple authors, probably because they are in the same firm and specialize in damaged properties.

### **Where to buy the book**

Appraisal Institute members for \$45; \$55 for non-members (plus shipping and handling). To access the table of contents or order online, visit: [www.appraisalinstitute.org/realestatedamages](http://www.appraisalinstitute.org/realestatedamages). To place an order by telephone, call 800-504-7440.

It is available on Amazon, but at a much higher price.

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## **The Art of Appraising - what Big Data and Analysis misses and what it means for you**

I have been thinking a lot about the future of residential lender appraising. Topics such as risk analysis for the type of valuation, when appraisers are needed and what are they needed for, CU and AVMs, data weaknesses, etc. In last month's paid newsletter, I wrote an article on the topic:

The best appraisers use the "curbside" approach to get the most accurate valuations. It can happen while working on an appraisal or after completing it. You sit on the curb (or in your office) looking at the subject property across the street thinking: "Does this make sense, what am I missing?"

### **My recent appraisal experience**

Here is a recent experience I had: I was appraising a fourplex in my city. The owner had passed away. The beneficiaries were the two brothers. I was providing an appraisal for one brother to buy out the other one. I do these regularly and always try to be as fair and accurate as possible.

The property would be very appealing to investors as the rents were close to market, it was in a good location and in above average condition. It was built in 1954 which is much newer than the other small income properties, mostly converted Victorians in my city with non-standard floor plans.

As usual, the sales and listings were not very similar to the subject. There was a tiered market, with properties with a good owner's unit appealing to owner users and an investor market.

The market was uncertain as rent control had passed a few months ago, which set annual rent increases at 5%. Larger increases required going to the local rent board. How did it affect this property? Properties with existing rents close to market were appealing to investors. The subject was an investor property.

I wrote up the appraisal, but it seemed low. GRMs were within a fairly close range. The Sales Comparison Approach was not very reliable due to the lack of sales with similar room counts.

There was no way to determine dollar adjustments for the location, size, age, condition, etc. Qualitative adjustments were indicated which I discussed in the sales reconciliation. The 2-4 unit market was very strong. Almost all the listings had pending sales. I knew the subject would be very appealing to investors with good rents, way above average condition, good location, all 1-bedroom units so limited appeal to owner occupants. Since it was a buy-out, I wanted it to be a fair value, not too high or not too low.

I asked a few local real estate agents what they thought to get a few opinions to see if I was way off.

I use the curbside method regularly for the final value after completing the report. I also use it while doing preliminary analysis, to determine who would want a property, highest and best use, etc. all types of properties. Sometimes I have to completely redo all the research and redo the appraisal report because I had the wrong approach.

### **What does this mean for appraising a house?**

The same situation. Fortunately, since I don't work for lenders, I don't have arbitrary lender "rules", but those rules are no excuse for doing a less accurate appraisal. You can always put extra closed sales, pending sales, etc. to support your value opinion.

Why the Art of appraising is important for you

Appraisers who do this will survive and continue to do full appraisals. Others will be "form fillers" for low fees due to limited demand when the market slows down.

The future of residential appraising is desktop appraisals where someone else does the exterior and maybe interior inspections. These will be used for the "low risk" conforming properties and borrowers with good credit.

I recently spoke with the owner of a long time local appraisal company who tried to hire another certified residential appraiser. His company did not do any AMC work. He interviewed four appraisers. When he asked about handling appraisal issues on a house, such as the example below, they could not do it. None of them could do an appraisal. They could only fill out a form.

You can also move up to "tier 2" lender appraising, where you are contacted for the "tough appraisals", high end homes, rural areas with few appraisers, or a market with few tract homes.

Or, do relocation appraisals, divorce, litigation support where these skills are valued.

### **How to learn, or improve, your Art of Appraising**

I have been appraising for 40 years. The longer I appraise, the more I learn. That is why I am an appraiser. I also learn more about what I don't know.

I'm sure you have these types of situations where the data does not work very well, whatever type of property you are appraising. What do you do now?

How do you do this? We all have tough lender appraisals no matter how well we screen our appraisal orders. Find a few appraisers who go beyond form filling to help you. I have some I have been using for many years. Take classes and seminars on ways to approach them. Speak with the other attendees, looking for savvy appraisers.

Take classes and seminars to improve your appraisal skills.

Get out of the "form filling" mind set where everything has to fit on a form perfectly. Don't spend all your time and energy trying to figure out how to not get "stips" or corrections from underwriters and reviewers.

### **What does this mean for you?**

There is hope for the future. Be the best appraiser you can be. Get paid for your knowledge. Do something you enjoy. After 40 years of appraising I still love it!!

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## **GLA adjustments using cost per sq.ft method - understandable and easy to use**

**By Dave Towne**

*Editor's comments:* There are many, many methods for determining adjustments, including using Cost. Using price per sq.ft. from the top of the grid is obviously not suitable for GLA adjustments. In this article, Dave discusses using a percent of cost per sq.ft. No calculator, software, or spreadsheet is needed. Paul Smith's software at Appraisaltool.net also uses cost and percentages. I really like Dave's pizza slices which makes it very easy to visualize. He also discusses CU, Fannie Guidelines and reviewers. This article was published online, but was very difficult to read, so I reformatted it for this newsletter.

I often tell clients and other appraisers that appraising (residential) real estate is far more complex than grabbing a store-bought pre-boxed pizza (that has exactly the same ingredients from box to box no matter which store you shop in) at a grocery. Next apply 425 degrees of love for 18 minutes in your home oven to achieve the tasty "opinion" desired.

For my example here, I'll use pizza to help you "visualize" the concept for determining the GLA adjustment. This process/method works for every property type.

The method I use was something I learned about 10 +/- years ago from another California based appraiser, in a small book that he wrote about adjustments. Since then, I've learned that other appraisers across the U.S. use this or a very similar GLA adjustment method, which I've used for a decade. So this method is not some kind of weird science or hocus pocus!

The other benefit is it satisfies the "wonderful" FNMA Collateral Underwriter review robot focus because the GLA adjustment amounts in my reports from property to property are always different dollar amounts. They are based on plainly visible report data.

### **Regression vs. Dave's method**

Now there are multiple software-based regression programs being sold, both independently and via the forms providers. These are designed to have you put your properties into the software, and they magically spit out adjustment figures - alleged to be highly accurate - based on their on-board algorithms. Unfortunately, you probably don't know anything about how they work internally. That's a problem!

In actuality, regression programs focus first on GLA, then when the program can't determine proper adjustments for additional amenities, they add to ..... you guessed it ..... the GLA adjustment amount and don't make the others! So regression software is an extra step beyond what I do, and in most cases, it costs extra buckaroos to acquire the software. But some do say that they can provide 'other' adjustments also. You might find that important.

My GLA adjustment system is FREE. And the components are right in front of your nose! Once you learn this, doing the other adjustments is relatively easy.

### **Residential construction cost guides and Dave's method**

Several printed or on-line residential construction cost guides are available. Many are used by appraisers to help determine adjustments.

That's perfectly fine and does provide a degree of accuracy that some might consider the absolute precise way to figure out the GLA adjustment. I'm OK with that if that process works for you, in terms of time spent! Actually, it's a good way to double check my method.

### **Lots of adjustment classes and methods vs. Dave's method**

There are approximately 81,000 independently licensed appraisers in the US as of July 2016. A number of 'adjustment deriving' classes are being taught by some highly experienced appraisers, live or on-line, whom I greatly admire for their willingness to teach.

But, there are somewhere between 1 and 81,000 ways to calculate the GLA and other adjustments. So which one is the better one to use? Which one has an accuracy you are comfy with? Is one better (i.e., more accurate) than another, or several others?

Is my method worse or better (or easier) than what you are presently doing? You will have to decide for yourself what is best for your appraisal business based on what you can support - if you are asked to do so. That's the kicker - you need to be able to explain the mathematical method and reasoning.

### **Fannie's CU and GLA adjustments**

The FannieMae CU process is finding far too many reports with low percentage/low dollar amounts for the GLA adjustment. Being too low is really not a valid amount if one believes most people use GLA (living space) as a key purchase decision .... except in Pittsburgh, PA where I'm told they don't!

### **Report production**

Most residential appraisers are basically in a 'production mode' 100% of the time. Meaning, we accept assignments and need to get them churned and burned and out the door relatively rapidly.

That does not mean sloppily, or inaccurately, because now with all the various 'review' exams employed, our reports are being given a proctologic exam within 30 seconds of submittal. The process I'm about to explain will help you produce a credible, and mathematically supported, GLA adjustment easily.

(By the way...this document is not about trying to "sell" you anything for money by leading you up to the 'closing question' I used to do in my prior 30 years of sales experience. I provide this info freely, because my goal is to help appraisers do better, more supported reports. Those who care to may distribute this to other peers freely, without restriction, with my permission given here.)

### **Cost per sq.ft. and pizza?**

OK, I'm getting hungry. Let's examine the pizza analogy relative to the GLA adjustment.

When we are slaving away on the computer, a few inches off the tip of our nose is an appraisal report staring back at us - on the monitor. What's at the top of the grid area in those reports - just below the Proximity to Subject line?

**Below we focus on the Sale Price/Gross Liv. Area line. Where does that figure come from?**

The Cost per Sq. ft. is the 'whole' pizza analogy that I have referred to. The Cost per Sq. ft. represents the entire pie, of whatever tasty variety you prefer, thin crust or deep dish... it doesn't matter.

The important item to remember is the Cost per Sq. ft. represents 100% of all the property characteristics and amenities ... such as GLA, view, location, quality, condition, basement, garage, site size, etc.

As such, we never use the 'total' amount shown in the Cost per Sq. ft. for the GLA adjustment. This is not totally understood by many people who come in contact with our work ... such as real estate agents, underwriters, etc. And even some appraisers who don't do residential reports regularly.

Sale Price	\$ 289,950	\$ 224,000	\$ 242,000	\$ 248,000
Sale Price/Gross Liv. Area	\$ 185.87 sq.ft.	\$ 165.68 sq.ft.	\$ 142.44 sq.ft.	\$ 168.94 sq.ft.

We're going to focus on the Sale Price/Gross Liv. Area line. Where does that figure come from?

Gross Living Area	1,560 sq.ft.	1,352 sq.ft.	+14,600	1,699 sq.ft.	-9,700	1,468 sq.ft.	+6,400
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**GLA and the 24 fields on the URAR adjustment grid**

Let's digress for a moment. On the 1004 Form, there are a total of 24 fields per comp where adjustments can be made: 21 pre-printed and 3 extras you can insert. GLA is only one of those. Not all fields need to be used. In some cases, line item fields can be combined to make one adjustment. And the GLA adjustment can include difficult-to-adjust minor items not adjusted individually - usually the ones below the basement line.

OK... wander back into your pizza joint. Next time you order one fresh out of the brick oven, ask the cook to divide the pizza into different sized slices? What??? The cook will have a conniption fit. But it's what we appraisers need to do as we determine what size 'slice' the GLA represents. It's not the same size as the other slices (the other adjustments). More than likely, the GLA adjustment will be the largest size. Sometimes not.

**CU and GLA adjustments - not "one size fits all"**

This, by the way, also points out what the CU robot is looking for, and is seeing too often. Appraisers are using 'the same size slice' (i.e., the same GLA adjustment amount) for all the reports they do - regardless of property characteristics. FNMA does not like that (nor should anyone!).

"One size fits all" is improper methodology. And appraisers are getting their knuckles wacked by the FNMA CU reviewer robot due to this. And by warm body reviewers also.

We're getting close to the 'meat' of this topic .... pepperoni or ham? With oozing cheese and sauce.....all the other aspects to be considered.

**What percent is used for GLA adjustment?**



To be honest, when I have discussed this method I use with other appraisers, I often get a deer in the headlights look back, because they've often never considered or thought about this relatively simple, yet supportable, process. Maybe the simplicity is confusing??!

But I have continued to use this method, and have never had a problem from any report reviewer. In over a decade, remember?

The GLA 'size slice' is a PERCENTAGE of the Cost per Sq. ft..

Again, it's never 100%. The trick, and the stickler about this, is to determine the appropriate percentage to use. That's the push back I normally get. "Well, I can't just pick a number." Actually, yes you can - once you understand the dynamics.

So where are we headed with this pizza slice analysis analogy? The goal is to figure out what PERCENTAGE to use to apply against the Cost per Sq. ft. This percentage figure will yield the \$ cost per sf of adjustment between the Subject and the Comp(s) GLA difference.

You can also double check, and possibly modify, the percentage based on your own experience in your market and assignments for different properties you've completed. Do that by looking at old reports - if you feel your adjustment in those is OK.

Take your report individual Comps Cost per Sq.ft \$ amount (at top of grid), and multiply that by 20%. Check that \$ adjustment amount by what you used. Is it lower than your adjustment per sf, close or even higher? Then do it again, this time using 65%, and check how that relates to your report.

If your comp Cost per Sq. ft. is \$150, then 20% will yield \$30; 65% will yield \$97.50.

I'd like to suggest that you start with at least 40%. Using our \$150 comp, that would be \$60 per sf for the GLA adjustment. This means that the significant slice of the pizza - the GLA - represents a high 'weighting' in the eyes of the property buyer, or owner if a refi. [For perspective, I currently start at 45% for most assignments.]

### **Percent GLA adjustment is relative to Cost per Sq. ft., not absolute**

Fannie is fond of explaining that the 'rating numbers' assigned to properties are Absolute, and not Relative. Well, in this case, the GLA adjustment percentage and amount is Relative! Relative to characteristics, features and amenities with each property. Meaning - it is changeable.

It's also Relative to the measured GLA size. In most cases, the Cost per Sq. ft.. changes with the house size. Smaller homes generally have a higher Cost per Sq. ft. than larger homes. But regardless of that, the adjustment method explained here works across all types and sizes of properties.

So this 'relativism' is also related to the appraiser's perspective and opinion on how much weight to place on GLA. This means you can 'adjust' the PERCENTAGE figure you use to determine the GLA adjustment. This is key in this discussion.

The appraiser's opinion is an important factor in this method. Other factors with the property will affect the PERCENTAGE used.

In my opinion, and actual use, using a PERCENTAGE of the Cost per Sq. ft. at 40% to 50% is a

good and safe place to start. You will not be criticized using that figure. Appraisers who drag out a cost manual, factor in depreciation and/or rely on regression software are probably close to that percentage. This is why this 'pizza slice' method works.

At this stage of pizza 'consumption' I'm guessing you're questioning the rest of the Cost per Sq. ft. percentage from the 100% total. What's left over represents the other 23 items (see above) that can be adjusted. Each has a slice of their own, or maybe they are combined. You as the appraiser have to use your 'relative' thinking cap to decide how much each one gets, in terms of their own percentage.

**What if the subject is not a tract home?**

If your property is in a typical built-out neighborhood of relatively uniform homes, then the 45% or so PERCENTAGE you choose is probably good for the GLA adjustment.

On the other hand, if your property has amenities that contribute to its overall value - such as acreage, area location, view, waterfront, basement, multi-car garage, etc., then you know that it or those slice(s) contribute a higher percentage to the overall Cost per Sq. ft. figure. You can then reduce the GLA % amount because more of the overall value is tied up in the other amenities.

The point of this is that if you only make a GLA adjustment, and none other, the GLA % can be higher (but never 100%! ). But if there are several other adjustments made up or down the grid, especially high dollar ones, then use a PERCENTAGE amount somewhere between 28% to 45%, or so. This is what I meant by 'the dynamics' mentioned on above.

**How to perform the calculations**

Now that you understand the basics of the 'dynamics', let's discuss the "math mechanics" of how to calculate the adjustment dollar amount.

Trust me, you won't need to use a HP12C calculator, a fancy software spreadsheet program, hire a college level math professor - or your 12 year old neighbor. Just a trusty simple desk calculator with a percentage (%) key is enough!

"But first, there's more" is the famous infomercial line. Here, I have to reveal that there are two basic schools of thought that apply to GLA adjustments. One says that adjustment is to be different (% or \$ amount) for each comp. The other, more frequently used, is each comp has the same \$ per s/f difference applied. I'm in the latter camp - and it is not incorrect to do so. (At least one of the report software providers allows it to be done either way easily, so pick your poison!)

Then there are folks who make every adjustment on the grid EXCEPT for GLA a 'rounded' dollar amount, but the GLA is shown down to the nearest 1 dollar. C'mon folks (and even some of you reviewers), what is the logic with that? Most value opinions are reported to a 'rounded' dollar figure, so why are GLA adjustment amounts done to the \$1 figure? To me, that doesn't make any sense. So round off GLA also! "We aren't that good to conclude any value down to a dollar!" You can quote me!

In order to arrive at a dollar amount for the GLA adjustment, we have to first determine the PERCENTAGE to use, then multiply that against the appropriate Cost per Sq. ft. figure. If you are in the camp that figures each comp separately, it's easy. But if you prefer making the GLA adjustment a common amount for each comp, it takes a few pecks on the calculator. That's what I will demonstrate next.

**Previously, I presented this screen shot of a report:**

The Sale Price/Gross Liv. Area = Cost per Sq. ft. is \$165.68, \$142.44 and \$168.94.

Sale Price	\$ 289,950	\$ 224,000	\$ 242,000	\$ 248,000
Sale Price/Gross Liv. Area	\$ 185.87 sq.ft.	\$ 165.68 sq.ft.	\$ 142.44 sq.ft.	\$ 168.94 sq.ft.

When I do my reports, I analyze these figures and then decide whether or not to use all comps, two

comps, or just one comp as the basis to derive the \$ figure. Because most homes have differences, the Cost per Sq. ft. between them often will be different.

My goal is to find a 'common' starting point, or Cost per Sq. ft. to multiply the % figure by. It could be done by 'averaging' the numbers, but that takes more key strokes on the calculator.

What I do is find the 'mid point' value between the numbers (if I'm using 2 or 3 comps). Sometimes the 'mid point' is actually the median when calculated, but since I don't know for sure, I call it 'mid point.' [Some math whizzes will probably challenge this - oh well!]

In the example above, I decided that comps 1 & 3 were most similar due to their Cost per Sq. ft. values. The math works like this:

High Number [minus] Low Number [divide by 2], then add back

Low Number = mid point

Mid point x % = \$ amount for the GLA adjustment (rounded).

$\$168.94 - \$165.68 / 2 = \$1.63 + \$165.68 = \$167.31$

$\$167.31 \times 45\% = \$75.28$

Round to \$75, applied to all comp GLA difference (and then let the report software ROUND the resulting dollar adjustment in the grid!)

In this example, if the actual 'low' number is used, it looks like this:

$\$168.94 - \$142.44 / 2 = \$13.25 + \$142.44 = \$155.69$

$\$155.69 \times 45\% = \$70.06$  Round to \$70

Picking the numbers is part of the appraiser's 'relativism' I mentioned before. You just need to be able to explain what you did, and why you did it - disclosed or if asked.

The advantage of this method is the appraiser is in total control of the process. It's easy to comprehend and to do the simple math. Anyone can replicate what has been done. A spreadsheet or regression program is not needed to arrive at a supportable GLA adjustment.

## **Basements**

If you've read this far, you know basements have not been mentioned - yet. You're probably asking "why is the basement living space excluded from the Cost per Sq. ft.?" To be honest, I don't know. I didn't design the form, or make the rules!

But, in many MLS systems, the basement living space is added to the Above Grade living area (by the agent) so that the listing can reflect the total furniture placement and usable space. Remember, agents are 'selling space' while appraisers are quantifying individual areas. (Please don't criticize agents for this; it's how they are trained, it's how buyers think, but it's different from what appraisers do.)

When the basement living space is added to the Above Grade area, the Cost per Sq. ft. figure will become smaller than the number you calculate using this Above Grade GLA adjustment method.

In your reports when you have basements, you can separately calculate (off report) the Cost per Sq. ft. by combining Above and Below grade areas so that the building functions similar to a dwelling built all above grade. Then apply your PERCENTAGE to that figure to determine the GLA adjustment dollar amount. When doing this, you probably should reduce the GLA PERCENTAGE because you'll also be making a basement adjustment on one or both basement lines. Remember, the basement adjustment is one of the other 'slices' of the pizza.

This brings up another anomaly I see in reports. Appraisers adjust basements differently from one another. Remember - 1 to 81,000 ways!

I've seen reports where "the basement" is adjusted on the first basement adjustment line, then the "rooms" are adjusted on the second line. Talk about confusing and lots of extra work! I advocate keeping

the basement adjustment much simpler.

Most reviewers, underwriters, appraisers, FHA, VA and even the GSE's have the impression that basements are 'worth less' than the above grade areas. Yes, challengeable and debatable, but let's just assume that to be acceptable. Then use KISS!

The KISS method I use for basement adjustments is again a PERCENTAGE, but this time, based on the calculated GLA dollar amount.

In my previous example above, the GLA \$ adjustment was calculated at either \$70 or \$75. I figure a Finished Basement is 'worth' at least 80% of the GLA (due to fewer walls, plumbing, electric, etc.), a Partially Finished at about 60% (which varies by the finished space), and an Unfinished Basement at about 20%. Use your 'relative thinking cap' to calculate these.

Finished Basement = \$56 to \$60 (80%)

Partially Finished = \$42 to \$45 (60%)

Unfinished = \$14 to \$15 (20%)

Make these basement adjustments on the first basement adjustment line only, and don't make an adjustment on the second line. You will insert a "0" instead to get it through UAD.

To keep the report simple to read, round the basement adjustments the same way you do all other adjustments. (I round to the nearest \$100 because most homes are sold in \$100 increments. And I don't make adjustments for less than \$499. I also adjust "all" the GLA and basement areas - it just keeps everything easier to calculate and to read.)

### **Fine tuning ... or 'sensitivity analysis.'**

In most appraisal literature, text books, etc., the ideal goal is to have each of the Adjusted Sale Price of Comparables be exactly the same. In the real world, that's almost never achieved.

The next best outcome is to have the 'range' between high and low be as close as possible. Many reviewers and U/W's get rattled if the percentage or dollar difference between the range is too high. Far too many think real estate is absolutely perfect.

Experienced appraisers know it is not.

When using this PERCENTAGE method, you can first use a figure that you believe is acceptable to 'run the numbers.'

Write down the Adjusted Sale Price numbers. Then modify the percentage a bit higher and a bit lower to get a different dollar amount for the \$ per Sq ft. difference. (Or in the report software, just change the \$ figure for the GLA adjustment you use.) Write down the results from the higher and lower \$ figure. Calculate the difference of all these samples, and use the GLA adjustment \$ figure that results in a tighter range.

### **Describe the process.**

Now that you've gotten to the Zen moment in your report with the GLA \$ figure, the next item is to explain the process.

Some people believe it is absolutely necessary to include every single calculation you do to arrive at the math conclusion -> in the report. Well, USPAP does not say that. However, the GSE's (and others) instructions are a little different. They want to see explanations. An 'explanation' can be short and sweet, or a full blown master's thesis. It's up to you to decide what to do.

I tend to go with the 'short and sweet' crowd, over here in the corner, or dancing in the center. My explanations look like this:

GLA at \$XX s/f (factored from comps XXX price per s/f). I include which comps were used. [This

is on page 2 in the appraisal report in the Summary of Sales Comparison Approach comment section.]

In the Addendum, I have extended comments about adjustments made. This is how I explain the GLA adjustment:

GLA is factored as a percentage from the 'range middle value' cost per square foot as shown at the top of the comparable sale grid columns for indicated comps, and shown in the comment section below the grid.

The word 'factor' is used due to its definition: Noun - One of several elements or causes that produce a result. [Technically, 'factored' is a Verb because it describes an action or occurrence.]

Note that I don't show the actual 'math' calculations - but you certainly can if you think it is necessary. But no one, not even the CU robot, or any other reviewer, has ever challenged me on this method, or the \$ per Sq. ft. used in my reports.

As I've mentioned before, every single report I've done (since adopting this method) has a different \$ per Sq. ft. adjustment from one report to the next. And also from one property type to the next! This PERCENTAGE method is property dependent.

### **The 10% - 15% - 25% guidelines**

If you've paid attention to the revised FNMA Selling Guide and various news releases, blogs, etc. which mention these, you will know that they have been dropped by FNMA. However, many other report users still believe they are vital indicators of report quality.

The reason why these guidelines came into existence was the belief that exceeding them caused the resulting Opinion of Value to be suspect, or questionable. Improper comps tended to increase values due to inflated adjustments.

After the UAD mandate was introduced in 2011, FNMA began to recognize (using their Collateral Underwriter robot) that appraisers were purposely 'fudging the numbers' just to keep adjustments within those guidelines. So they dropped the guidelines.

FNMA wants reports to report reality, not bogus information. You CAN exceed those guidelines, if warranted.

FNMA has finally realized that real estate is imperfect. The square box cannot be pounded into the triangle shaped hole and have the 'smushed data' emerge as believable. Other users, however, think it's possible. They still clutch the 10% line, 15% net, and 25% gross adjustment tight to their chest and expect appraisers to be mindful of this ridged, potentially flawed, perspective.

I bring this up now as a cautionary note, more than anything. And also to re-emphasize that this PERCENTAGE method to derive the GLA adjustment is not based on multiplying a percentage against the property Sale Price. No...it's a percentage against the Cost per Sq. ft..

However, the resulting actual adjustment \$ amount (the pizza slice wedge) for the difference in GLA does have a correlation with the line item percentage.

I suggest that your actual dollar adjustment be kept to 10% or less of the Sale Price whenever possible. Using a PERCENTAGE of the Cost per Sq ft. - starting at about 45% - will yield a line item percentage of less than 10% in most cases.

You can achieve this by keeping the comps GLA between 75% and 125% of the subject's GLA size, or ideally tighter if possible. In other words, search for comps using GLA, not sale price. That way, the GLA adjustment \$ amount is relatively low.

### **The other pizza slices - location, site and view**

Every adjustment line in the grid (up to 24) consumes a hunk of the pizza. They are organized on the form in relative importance. Some of those are 'stand alone' like the GLA, but others can be combined

into one entry. The first group that can be combined are Location, Site and View. The reason for this is they relate to the allocation of the 'dirt' to the actual dwelling, in terms of value.

Allocation is related to mass appraisal, i.e., how the local assessor divides up the contribution of the 'site' value to the contribution of the dwelling value. Generally, the allocated 'site' value (including Location and View) is in the range of 15% to 50% or possibly more of the total assessed value.

Homes in subdivisions tend to have about a 20% to 35% 'site' contribution to the total assessed value. Homes on sites with stellar views in "beneficial" locations tend to have higher 'site' values. Similarly, homes at or near the end of their economic life tend to contribute less to the overall value - that's when they become tear-down homes and the site is redeveloped.

The point here is the appraiser needs to employ some 'relativity' thinking to determine what, if any, adjustment should apply to these three categories. And the appraiser can make ONE adjustment on one of the lines to incorporate all three factors. The appraiser just needs to explain the process in the report.

### **Actual age and condition**

Next on the grid for combining are Actual Age and Condition. Both are related. They both incorporate depreciation for short and long term components.

Some appraisers like to make an adjustment on both lines. Others, like me, only make an Age adjustment in the report (when possible) while keeping the Condition rating the same across the grid. This avoids actual, or the appearance of, double-dipping, and having to explain both adjustments. Explaining one is simpler!

Related to this is Effective Age, which per FNMA guidelines, can be made on a separate line, not on the Age line. Some appraisers believe their crystal balls or Ouija boards and do make this adjustment. Others, like me, don't - due to the inherent subjectiveness of the separate depreciable components not actually observed. Effective Age for comparables involves too much guesswork ..... unless you've actually inspected the home recently.

### **Items below the basement, except garage/carport**

Items below the basement, except for the garage/carport, generally are smaller slices of the 'pie' and command a much lower percentage of the total. Making a specific adjustment of 1% - 2% of the sale price for minor items is really questionable, in my view, and may be difficult to quantify with market data.

These type items include the heating/cooling, sheds, patios & decks, fences, etc., because direct comparison/observation between the subject and comparables may not be possible.

### **Combining below grade sq. ft. and GLA/room count**

One other combinable group adjustment is one you may not be aware of. But this one IS allowed by FNMA in their Selling Guide. It can be used when situations involving imperfect real estate are encountered and comparables are lacking.

Specifically, it is combining below grade square footage and room count with the above grade GLA/room count. If you encounter situations where the same type building design are extremely limited, but you feel compelled to use one or more 'imperfect' comp, you can do this.

This happens when design elements are not exactly similar between the homes. Examples: subject is a two story, but comps have finished basements with internal stairs. Or the subject has a finished basement, but comps are multi-story.

Of course, the above is not something done very often. And some reviewers will not get it. But you can use this technique as a last resort in specific circumstances. Just explain what you have done. The next text has my verbiage.

Homes with daylight basements:

"In this area, homes with daylight basements are marketed in the MLS as having combined living space with the main level(s) of the dwelling. These homes compete with 1.5, 2 story, and Bi/Tri level designs due to internal stairs between levels.

There does not seem to be any adverse buyer reaction to daylight basement style homes, especially when the finish in the basement is similar to the main level."

"Therefore, for the purposes of this report, the main and the basement level living spaces (for the subject or Comps XXX) are combined to report the GLA and room counts. This is an acceptable appraisal method in this area, and does not adversely affect the OMV as reported."

I've gone off on this tangent to help an understanding of how the other adjustments relate to the GLA, and how all the adjustments relate in percentage to the Cost per Sq. ft. and to the property sale price. Both are correlated.

Obviously, we don't want the adjustment percentages relating to the Cost per Sq. ft. to be more than 100%. Similarly, the actual dollar amount of the line item adjustments ideally will be as low as possible.

### **Why use this method**

The take-aways from this presentation:

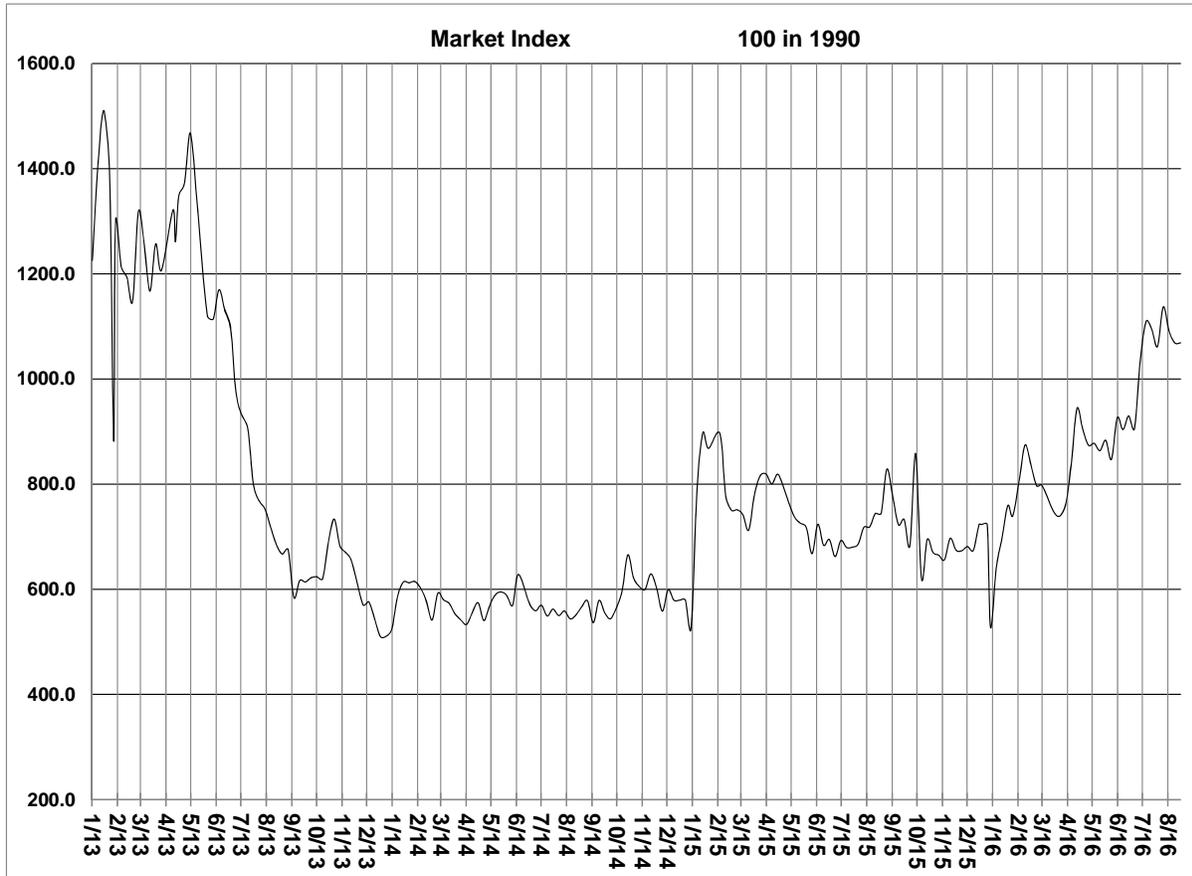
- 1- Calculating the GLA adjustment using this PERCENTAGE method is simple
- 2- An appraiser does not need a 2 or 4 year college degree to figure it out
- 3- There is no need for an HP12C calculator to be used; a simple calculator works
- 4- This PERCENTAGE method is free to use; no additional software is required
- 5- This method is supportable, logical and easy to replicate
- 6- The appraiser is in full control of the 'relative' percentages or actual dollar amounts used which are based on local market evidence
- 7- This method is similar to how regression works to determine adjustments
- 8- This method works for all property types
- 9- This method satisfies the CU robot in how it examines individual appraiser reports for inconsistencies in how the GLA adjustment is indicated

### **About the author**

Dave Towne is a Certified Residential Appraiser with nearly 15 years experience in small urban, suburban and rural areas in Washington state. Dave is a writer, blogger, and educator on appraisal topics since 2005. He can be reached at dtowne@fidalgo.net.

## MBA Loan Volume Application Index 1/13 to 8/16

**2016 has been overall going up. But, there is definitely a shortage of appraisers willing to work for low AMC fees. Overall volume is predicted to increase slightly in 2017.**



The survey covers approximately 75 percent of all U.S. retail residential mortgage applications, and has been conducted weekly since 1990. Respondents include mortgage bankers, commercial banks and thrifts. Base period and value for all indexes is March 16, 1990=100.

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Publisher  
Ann O'Rourke, MAI, SRA

[ann@appraisaltoday.com](mailto:ann@appraisaltoday.com)

Subscriber Services

Theresa Lua

M,T,W 7AM to noon

Friday 7AM to 9 AM (Pacific time)

[info@appraisaltoday.com](mailto:info@appraisaltoday.com) (24 x 7)

Editorial and Subscription Offices

2033 Clement Ave., Suite 105

Alameda, CA 94501

Phone: 1-800-839-0227

Fax: 1-800-839-0014

Email: [info@appraisaltoday.com](mailto:info@appraisaltoday.com)

[www.appraisaltoday.com](http://www.appraisaltoday.com)

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