

# Q&A

What is your opinion on including an enclosed garage as living area? A reviewer has told me that I must include it, but I feel that it has no contributory value when enclosed.

*Responses to these questions were prepared by individual members of the Society of Real Estate Appraisers. Although believed to be correct, they may not reflect the official interpretations of international committees or the Board of Governors.*

The answer to the question is determined by (a) the market and (b) internal consistency within the appraisal report.

The market determines whether an enclosed garage is living area. What is the perception of the typical buyer? Is available parking/storage adequate without the garage? Would the typical buyer restore the area to a garage or continue its use as living area? If the former is true, then functional issues must be considered. If the latter is the case (i.e., continued use), then separate treatment in the appraisal may still be warranted. For instance, the reproduction cost might be different from other portions of the improvements.

Within the report itself, it is important to be consistent. This is a communications requirement (clarity) as well as an analysis requirement. On the URAR form, for instance, living area is presented on page one, under "Room List," and on page two, in the approaches to value. It could be confusing to report 2,000 SF living area on the first page, and use 1,750 on the second page. Assume the perspective of the reader of the report. Is there room for confusion? If so, correct it. Would further explanation be of value? If so, provide it.

As noted in Strunk and White's *The Element of Style*, be clear, candid, concise, correct, coherent, complete, concrete, convincing, constructive, and conversational. We do not communicate if we confuse.

(Response prepared by Thomas A. Dorsey, SREA)

Does a relocation appraisal differ from other types of appraisals?

The answer is emphatically, "yes!" The reason for a relocation appraisal is to estimate market value of a transferee's home and to provide insight into the client's needs and objectives. Other types of appraisals are done for the purpose of insurance, mortgage, probate, or taxes. They all have something in common in that they follow an appraisal process. However, each of these types of appraisal has a different set of guidelines and procedures to follow; so does the relocation appraisal.

The relocation appraisal has a set of definitions and instructions to appraisers that relate *only* to the relocation appraisal. These guidelines (Exhibit A) differ substantially from the appraisal process for other types of appraisals. A thorough explanation of these guidelines is included in *Relocation Appraisal Guide* published by the Employee Relocation Council, Washington, DC.

They direct the appraiser to *forecast* what the home will sell for in "as is condition" within a reasonable marketing time. They can also direct the appraiser to estimate the market value within a specific time frame. Confusion often exists as to the interpretation of market value and reasonable marketing time. These guidelines may be altered at the direction of the client who may have supplemental guidelines.

## Exhibit A

### DEFINITIONS RELATING TO THE RELOCATION APPRAISAL

#### Purpose of the Relocation Appraisal:

To establish the most probable sales price for a relocated employee's primary residence, assuming an arm's length transaction.

#### Definition of the Relocation Appraisal:

The most probable sales price of a residential housing unit, using the market approach to value.

#### Definition of Market Data Approach to Value:

The price at which a property would most probably sell, if exposed to the market for a reasonable period of time in an "as is" condition, where payment is made in cash or its equivalent.

Implicit in this definition is the consummation of the sale with passing of title from seller to buyer under conditions whereby:

1. Both parties are well informed and acting in what they consider their best interests.
2. A reasonable amount of time is allowed for exposure in the local market. (A reasonable period is typically up to 120 days unless market conditions indicate otherwise.)
3. Financing, if any, is on terms generally available in the community and typical for the property type in its locale. (If an assumption or special financing is available, justify its specific effect on the appraised value on page four in the "Sales or Financing Concessions" grid section, and discuss the impact if any, on page six in the "Special Financing" section.)
4. Forecasting is applied in making an estimate of a future happening or condition, based on an analysis of trends in the recent past, tempered with analytical judgment concerning the probable extent to which these trends will continue into the future and reflecting an estimated impact, if any, upon value.

### INSTRUCTIONS TO APPRAISERS

#### General Guidelines

The appraiser must observe the following general guidelines in determining the appraised value opinion. The appraiser is to:

- 1) Estimate the appraised value considering the property in an "as is" condition as of the date of inspection. "As is" condition should reflect the cost of those items (e.g., repairs, decorations, etc.) required to make the subject comparable with similar properties in that market area from a buyer's point of view. If there is a circumstance where the appraiser is unable to determine the "as is" condition (e.g., in-process construction or improvements, suspected structural problems, water related problems, roof, etc.) notify the client immediately.
- 2) Stress what the property should sell for in the current marketplace. In this regard, give particular attention to the analysis of comparable sales (or homes under contract), competitive listings, supply and demand, and overall market conditions. The appraiser should also consider other factors and make necessary adjustments such as the residence's exposure to the market, availability and terms of financing, over-improvements and location.
- 3) Reflect in your appraised value opinion as of the date of the appraisal:
  - a) An adjustment for any value that may have been created by comparable sale prices (or homes under contract) that were influenced by discount points paid by the seller of FHA, VA, or conventional mortgages; or those comparables which were sold by loan assumption, installment contract, seller carry back, or any form of preferential financing. This also applies to situations where the seller pays certain buyer costs such as buy downs, fees, or credits. In these situations, adjustments should be noted and described for the specific comparable sale.
  - b) The difference in discount points between those charged on the comparable sales (or homes under contract) and those charged currently if it is the custom of lenders to charge discount points to sellers on conventional mortgages.
- 4) Develop the appraised value opinion, assuming the property is free and clear of all non-mortgage encumbrances with the owner responsible for discharging all liens and unpaid installments of special assessments for improvements completed. If the special assessments are still pending and the improvements are not yet completed, the appraiser should include any additional value which may attribute to the pending improvements. If paying off an assessment provides the subject property with an advantage over the comparable sales and competitive listings, this should be reflected in the appraised value.

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The relocation appraiser is often asked to take time during the inspection to counsel the transferee on the appraisal process and accept information from the transferee such as "brag sheets" listing improvements to the home since purchase and a factual record of any recent sales and listings in the neighborhood which can be verified by the appraiser. The inspection and counseling often require an hour, during which the appraiser has the opportunity to communicate credibility and professionalism.

The relocation appraisal does not require a cost approach; however, if the appraiser is going to submit this report for experience credit it is suggested that a cost approach be completed and kept in the appraiser's file for future review by an Admissions Committee.

Another way in which a relocation appraisal differs from a mortgage appraisal is the appraisal review process. An appraiser who accepts a relocation appraisal assignment must be prepared to take the time to write a competent report, discuss the report with the client, and be responsive to the client's questions. Requests for review of the factual data presented

by the transferee or data reported in another appraiser's report is part of the relocation appraisal process. The appraiser is not being asked to change his value, but merely to review additional data to determine if it could have an impact on his original value conclusion.

The appraiser must be educated in relocation appraising and be willing to devote the extra time required for answering client questions about his report. The appraiser must be aware that two to five appraisal reports are being reviewed and discrepancies often occur. The questions are asked for clarification, edification, and corrections since the reports are further reviewed by corporate relocation personnel and, ultimately, the transferee.

(Response prepared by Alvin L. Wagner, Jr., SRA)

Recently, I have had more than one occasion to reference a limiting condition in which I have disclaimed responsibility for matters related to title. Two examples follow:

A survey and title search, subsequent to the date of the appraisal, revealed that the storage building (included in the appraisal) was situated within a utility easement.

A survey, obtained subsequent to the date of the appraisal, showed the exact location of a fence. The fence was situated perhaps five feet inside of the side property boundaries, and twenty feet away from the rear boundary (i.e., the fence was entirely within the property boundaries, but installed such that some portion of the land was outside of the fenced area). The resulting title policy listed as an exception "rights or claims, if any, of adjoining property owners in and to those portions of insured premises lying between the fence and the real lot line and the fence and the North lot line . . ."

In each instance, I was asked to write a letter to the effect that there was "no problem" in terms of the appraised value. I am uncomfortable for a number of reasons. If I say that there is "no problem," am I, in fact, advising the parties to leave things as they are? Am I waiving any protection I might have by way of the limiting conditions I started with? What about my professional liability insurance?

In the first instance, say a lineman later comes along and, while working on the lines, falls. Instead of landing on the grass, he lands on the storage building. Instead of having minor injuries, perhaps he is permanently disabled. Am I liable?

I'd like to know how other appraisers respond to situations like this.

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Every day, I thank my lucky star that I'm neither an attorney nor an insurance adjuster! Seriously, there are a lot of questions and issues here. Further examples from our readers — along with suggested solutions — would be very much appreciated. Some of the top thoughts follow.

The "textbook" approach to the utility building example might be to rely on paired sales. What value does the market give to an improvement which is improperly located? Another approach could be to deduct the estimated expense to relocate the improvement.

The fence example could be handled similarly. There might be other responses as well. For instance, the appraisal could be based on the property without the "outside" land.

In neither instance should the response be a simple "no problem." This is new information, which, I would think, changes the nature of the appraisal problem. Appraisers are not surveyors or title experts and should not be placed in a position where they are expected to act as such.

Readers?

On February 22, 1985, the Society's Board of Governors adopted the following policy statement:

The Society will provide for the legal defense of any member subject to a lawsuit stemming from his participation in the filing, investigation, hearing, and disposition of a complaint in accordance with the admissions or ethics procedures of the Society, provided only that the member is acting in good faith in behalf of the Society and in accordance with applicable Regulations.

With respect to professional practice matters, you should familiarize yourself with Regulation No. 7, Disciplinary Rules and Procedures. A portion of Regulation No. 7.2140 is repeated as follows:

Each member by joining the Society or continuing his/her membership therein agrees that any written complaint filed, and any subsequent charges preferred pursuant to this Regulation, shall not subject the complainant, nor any member responsible for carrying out duties under this Regulation, to legal liability under the laws of libel and slander, nor shall the member complained of institute libel or slander proceedings against any complainant.

Regulation 7.2140 goes on to state that the foregoing does not apply if the complaint is intended "as a means of maliciously instituting a false attack . . . for the purpose of injuring his/her business and professional reputation.

As a new chapter officer, I'm concerned at personal exposure in admissions and professional practice matters. What happens if I'm sued?

Address your questions on the appraisal profession, practices, techniques, standards, or on Society committees, courses, etc., to Thomas A. Dorsey, SREA, Q&A Editor, in care of Society of Real Estate Appraisers, 225 N. Michigan Ave., Ste. 724, Chicago, IL 60601-7601.