



OKLAHOMA REAL ESTATE APPRAISER BOARD

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COMMITTEE SERVICE

There are several vacancies on the Board's Education, Experience & Testing Committee ("EET") and Standards and Disciplinary Procedures Committee ("SDP"). Committee members must be active appraisers in good standing, and must hold a Certified Residential or Certified General license in order to be considered for service. If you are interested in serving on one of these committees, please e-mail your resume to the Board's Director at christine.mcentire@oid.ok.gov. If you have any questions, please e-mail the Board's Director or telephone the Board's staff office at (405) 521-6636.

SITE VALUATION

By Robert Liebel, Standards and Disciplinary Procedures Committee

The focus of this article is to outline certain pitfalls observed during the review process on residential appraisals utilizing the FNMA form 1004 and hopefully shed some light on the proper methods of site valuation within the context of that form. Over the course of numerous reviews both private and in conjunction with appointment to the Board's Probable Cause Committee ("PCC"), a pattern exists among almost all residential appraisals reviewed.

The purpose of this article is not to determine if the cost approach and one of its components, site value, is required on any residential appraisal. FNMA clearly states on the form that the cost approach is not required. The use of the cost approach is ultimately the appraiser's decision within the particular scope of work. However, if the appraiser chooses to perform a cost approach, proper site valuation is required.

Standards Rule 1-4

"In developing a real property appraisal, an appraiser must collect, verify, and analyze all information necessary for credible assignment results."

(b) When a cost approach is necessary for credible assignment results, an appraiser must:

(i) "Develop an opinion of site value by an appropriate method or technique."

The purpose of this article is to provide some guidance as to what is considered "not acceptable" under the Uniform Standards of Professional Appraisal Practice, and by extension, what are approved methods of site valuation.

The cost approach section of the FNMA form regarding site value provides the following:

"Support for the opinion of site value (**summary of comparable land sales or other methods for estimating site value**)" [emphasis added]

The following are a just a few of the examples actually found on residential appraisals reviewed by the PCC where no evidence exists in the work file that any research was performed in support of a site value:

1. "Courthouse records"
2. "Market Analysis"
3. "Site value was established from the extraction method"
4. "Appraisers expertise and experience as well as local agents and contractors"
5. "Site value is based on actual closed sales of vacant sites with like size, function, and access"
6. "Site value was determined from the extraction method and/or paired sales analysis"
7. "Site value is based on actual closed sales of vacant sites with like size, function and access. The allocation method is also used especially in built up areas where site sales are not available."
8. "The lot value was determined using the allocation method"

These are just a few of the numerous comments provided on the 1004 form in support of the appraisers opinion of site value. When these files were reviewed, a common thread appeared. That pattern or common thread among all of the above comments is that none had written evidence of any research on site sales nor notes or calculations for the extraction or allocation method contained within the work file. Simply put, none of the appraisals "developed an opinion of site value by an appropriate method or technique" as required by Standards Rule 1-4 (B) (i).

Remember, FNMA clearly states on the 1004 form "(summary of comparable land sales or other methods for estimating site value)."

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A closer look at a few of the comments above, provided in support of site value, reveals the following:

1. "Courthouse Records" does not support anything in regard to site value on an appraisal. The County Assessor and County Clerk are the two primary entities within that "Courthouse" building that are relevant to an appraiser's research. Simply stating "Courthouse Records" is misleading especially where there is no data in the appraisal file of any such research. "Courthouse Records" is not an appropriate method or technique for site valuation as required by Standards Rule 1-4.

2. Simply stating on the appraisal "Market Analysis" or "Site value was established from extraction method" again does not mean anything and lends no credibility to the report where there is no demonstration that such methods were actually performed. These comments do not qualify as an appropriate method or technique as required by Standards Rule 1-4 (b) (i).

According to USPAP, credibility is defined as "worthy of belief". It comments that "credible assignment results require support, by relevant **evidence and logic**, to the degree necessary for the intended use."

3. "Appraiser's expertise and experience as well as local agents and contractors." One must ask, is that worthy of belief? Again, when the appraiser's complete work file was reviewed, there was no evidence that independent analysis was utilized to develop the site value which was coincidentally the same value as the County Assessor's number. At the risk of overdosing on Standard Rule 1-4 the comment, "Appraiser's expertise and experience" does not qualify as an appropriate method or technique.

4. "Site value is based on actual closed sales of vacant sites with like size, function, and access." The sales comparison approach is certainly the most preferred method of developing site value. The problem is that, like the others, there was no evidence in the appraiser's file of any research or analysis of any site sales. This falls back to the credibility issue. Is it worthy of belief? If the appraiser said he did it then why not simply furnish the evidence in the space provided on the form; i.e. provide the actual site sales utilized to develop the opinion of site value. Simply stating that "Site value is based on actual closed sales of vacant sites" is:

- A. Not an appropriate method or technique as required by Standards Rule 1-4 (B) (i).
- B. Not a summary of comparable land sales as required by FNMA on the 1004 form.

The remaining comments outlined above that were provided as support for site value on residential appraisals are varying degrees of attempts to pass the sales comparison approach, market extraction, and allocation methods as the measure by which the site value in the appraisal was developed. The common thread was that none of the work files contained documentation of any research, analysis, or conclusions for support of the site value presented. Remember credibility, is it worthy of belief? None of the above comments directly or adequately address the requirement on the FNMA 1004 form. None provide a summary (as required) of the reasoning or analysis utilized in support of the opinion of site value.

Why is this important? If for no other reason, it is important for your credibility and your appraisal profession's credibility. Now is probably a good time to point out that no appraiser is immune from having a grievance filed against them at the State Appraisal Board. If it happens, why open the door to a possible violation of Standards Rule 1-4 (b)(i) ?

The Appraisal Institute's book, "The Appraisal of Real Estate, 13th Edition" provides the six primary methods of site valuation. Three of those methods deal with capitalization; land residual, ground rent and discounted cash flow analysis. Those three methods of site valuation are generally beyond the scope of site valuation on a residential appraisal report form and will not be considered here. The other three methods are the Sales Comparison Approach, Market Extraction and Allocation. Each is considered an appropriate method or technique as required by Standards Rule 1-4 (b)(i) when correctly developed. These are the three methods that in varying attempts, as illustrated above, are inappropriately and inadequately utilized as support for site value with credibility lacking in each.

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The **Sales Comparison Approach** is “the preferred method of land or site valuation and is based on the analysis of historical prices paid for sites similar to the subject by willing buyers and sellers in an open market.” In addition to providing support for the subject’s site value opinion, important factors affecting residential sites where adjustments can be developed for property differences include site size, front footage, topography, location, easements, etc. These are just a few of the various factors that can be derived from the sales comparison approach in site valuation. I do not know any other way to describe it other than site sales in Oklahoma County are prolific. With the availability of Oklahoma County Assessor’s website, site sales are usually easy to find (Cleveland and Canadian County as well). It appears from a variety of the above statements found in appraisals that many appraisers like the Sales Comparison Approach. If you are actually doing what you say you are doing, why not put a couple of site sales in the space on the form where FNMA asks for the summary of comparable land sales. That can only lend credibility to the report.

Market Extraction “is used to estimate land value where there are no other comparable land sales in the subject or competing area.” “The methodology requires research of comparable sales of improved properties with locational attributes similar to the subject. An estimate of the depreciated cost of the improvements is deducted from the total sale price of the property to arrive at the land value.” This requires an estimate of the cost of the property and the deduction of the appropriate amount of depreciation and site improvements. The remainder is the indicated value of the lot. The limitation here is “that the appraiser must be able to determine the value contribution of the improvements estimated at their depreciated cost.” It requires some math and a few calculations. As the purpose of this article is not to provide basic instruction, you are encouraged to review education materials for proper application of this methodology.

Allocation is another method used by appraisers when they need an opinion of land or site value where there are no recent comparable land sales. As indicated in the “Appraisal of Real Estate 13th Edition,” the procedure for allocation is “a ratio of site value to property value is extracted from comparable sales in competitive locations and applied to the sale price of the subject property to develop the site value.” The allocation method is a ratio technique in which improved property sales and vacant land sales in an area that competes with the subject are researched. A ratio of land value to property value is established and that ratio is applied to the property being appraised to determine the underlying land value of a similar improved site. The limitation here is that “the allocation method does not produce conclusive value indications unless ample sales data is available.”

With the availability of online county assessor records there is ample data that can be utilized to develop a site value by the allocation method. Again, you are encouraged to review education materials for proper application of this methodology.

Several of the site value comments outlined above alluded to the allocation method as support for the opinion of site value. Here again, it looks like this method requires a little analysis on the part of the appraiser. In doing so, it would require at the minimum some evidence in the work file of the site sales utilized, and the calculations applied to those sales to develop the ratio to be applied to the property being appraised.

One final comment about the allocation method. It seems some appraisals are estimating the land to total property value ratio by applying the county assessor’s opinion of site value to the assessor’s opinion of market value or the recorded sale price. The correct procedure for the allocation method requires the use of sale properties to develop the ratio. Using the county assessor’s opinion of site value does not qualify as a sale property and any ratio developed from the county assessor’s interpretation of value will be skewed.

In conclusion, if you are doing a residential appraisal and performing a cost approach where site value is a component, make an effort to comply with Standards Rule 1-4 as well as the FNMA requirement to “support the opinion of site value (summary of comparable land sales or other methods).” In simple terms, **show your work**. Enhance the credibility of your appraisal report and in doing so, the credibility of your profession.

Did you know that a complete list of approved providers and courses can be found on our website at www.reab.oid.ok.gov? Click on *Education Provider Information* and then the *List of Approved Continuing Education Providers and Courses* link. This roster is updated one time per month following each month's Board meeting. Behind each course listing you will find a four-digit number. This is the year and month the course is set to expire. We work to keep expired courses off the roster in a timely manner; however, if you find one that reflect it may be expired, please confirm with the staff office before scheduling as you will not receive continuing education credit for an expired course.

Course Announcements

| <u>Course Provider</u> | <u>Course Title</u> | <u>QE/CE</u> | <u>CRS</u> | <u>May</u> | <u>Location</u> |
|------------------------|----------------------------------|--------------|------------|------------|-----------------|
| ASFMRA | Appraising Natural Resources | 8CE | 773 | 12 | Albuquerque |
| ASFMRA | Appraisal – Eyes of the Reviewer | 7CE | 797 | 12 | Albuquerque |
| Tulsa Technology | Advanced Res. Applications | 15QE | 622 | 16-17 | Tulsa |
| Central OK Chap/AI | Today's FHA & VA | 7CE | 781 | 29 | OKC |
| Tulsa Technology | Statistics, Modeling & Finance | 15QE | 621 | 30-31 | Tulsa |

| <u>Course Provider</u> | <u>Course Title</u> | <u>QE/CE</u> | <u>CRS</u> | <u>June</u> | <u>Location</u> |
|------------------------|------------------------------------|--------------|------------|-------------|-----------------|
| ASFMRA | Administrative Review of Appraisal | 16CE | 719 | 2-3 | Austin |
| ASFMRA | 7-Hour National USPAP | 7CE | 700 | 4 | Austin |
| Tulsa Technology | 15-Hour National USPAP | 15QE | 600 | 13-14 | Tulsa |
| Tulsa Technology | Res. Market Analysis & HBU | 15QE | 611 | 27-28 | Tulsa |

| <u>Course Provider</u> | <u>Course Title</u> | <u>QE/CE</u> | <u>CRS</u> | <u>July</u> | <u>Location</u> |
|------------------------|-------------------------------|--------------|------------|-------------|-----------------|
| Appraisal Institute | Advanced Res. Applications | 15QE | 622 | 8-9 | OKC |
| Appraisal Institute | Advanced Res. Report Writing | 30QE | 652 | 10-14 | OKC |
| ASFMRA | Basic Appraisal Principles | 30QE | 601 | 15-18 | Omaha |
| ASFMRA | Basic Appraisal Procedures | 30QE | 602 | 19-22 | Omaha |
| ASFMRA | General Market Analysis & HBU | 30QE | 631 | 20-23 | Omaha |
| ASFMRA | 15-Hour National USPAP | 15QE | 600 | 23-24 | Omaha |

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Have you moved? Please note that you are required by law to notify the OREAB in writing within 10 days of changing your address. We receive a lot of returned mail that is aged sufficiently that cannot be forwarded.

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2. Appraisercrew.com, San Diego, CA
3. Pinnacle Appraisal Management Services, Northport, NY
4. Mark to Market, Jacksonville, FL

§ 858-823 Appraisal Management Company Registration Numbers – Placement of Registration Numbers

C. An AMC registered in this state shall place its registration number on any instrument utilized by the AMC for procurement of appraisal services in this state.

Appraisers: If you receive an appraisal assignment, and there is not an Oklahoma registration number on the assignment, please check the roster of registered AMCs on the Board's website or contact the Board at (405) 521-6636.

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