

THE FORSYTHE APPRAISALS FLASH

Appraisal Insights for Real Estate Professionals



Understand how quantitative and qualitative analysis impacts the appraisal process.

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If you are unfamiliar with the appraisal process, it may be confusing to read an appraisal report and understand how adjustments are applied for different characteristics or attributes of properties which cause prices to vary, such as, site size; property style; size; bedroom count; or amenities such as basements, garages, decks, fireplaces or swimming pools to name a few.

It would seem reasonable that for every difference in a specific feature between the subject property and the comparable, a numerical adjustment is made to reflect that difference. For example, a property with a one-car garage would be considered inferior to a similar property that featured a two-car garage. An appraisal would logically have a numerical dollar amount added to the one-car property to demonstrate the inferior appeal. When a dollar adjustment is made for the lack of, or the inclusion of, a specific feature, it is referred to as a "quantitative adjustment". Simply put, its a numerical adjustment.

What if there isn't an adjustment made for a difference in amenities? Does that mean that the appraiser forgot about it or didn't consider its value? Not necessarily. In the example of the one-car versus two-car tandem garage (one car parked in front of the other versus a modern side-by-side two-car garage), there may be a reason that no adjustment is made. It may be that the two-car tandem garage does not offer convenient utility, as such, while it may have greater appeal than a traditional one-car garage, there may not be sufficient market data to support a specific quantifiable (numerical) adjustment. Rather, the appraiser may have taken the difference into consideration through a "qualitative adjustment".

Qualitative analysis is based upon either a ranking process, or as a comparison, with consideration for the features or element given in the conclusions but not presented numerically. A qualitative adjustment is generally more subjective and may be represented through words such as "superior", "inferior" or "equal."

The lack of a numerical adjustment doesn't mean the appraiser hasn't made an adjustment. The appraiser may have made a professional analysis and determined to consider the difference within their final conclusions (as they reconciled all the sales considered, they decided to come in at the upper-end of the value range due to the subject's larger garage) rather than apply a numerical adjustment. Arguably, qualitative adjustments require much more narrative explanation on the part of the appraiser so the reader can easily understand how, if at all, this difference was accounted for within the valuation of the property.

While the vast majority of appraisals completed on residential properties include only quantitative adjustments and analysis, both forms of adjustments and analysis can be applied within the same report. And, while it happens occasionally, it is very rare to see the valuation of a residential property utilizing only qualitative analysis, since there are numerous elements within a residential property which are easily quantified by the market. Generally speaking, most qualitative adjustments are made to more subjective elements of comparison such as "views" or landscaping, which can be greatly influenced by personal preference within the market. However, qualitative adjustments can also be made to more tangible elements of comparison such as the garage example above.

If you read an appraisal report and see a difference in amenities with no adjustments, which you believe would have an impact on the value conclusions of that property, take time to read the appraiser's narrative comments to understand how the differences were considered within the valuation process.

*Do you have any suggestions for future articles you'd like to see?
Please e-mail Deb deLambert at debd@forsytheappraisals.com.*

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