

FORSYTHE FLASH



Appraisal Insights for the Real Estate Professional

February 09, 2006

Cost Approach—Optional?

By Jason Miles, Branch Manager: Forsythe Appraisals – Chicago

As of November 1, 2005, Fannie Mae implemented a series of new appraisal forms. Although there were many overall changes aimed at improving and increasing the overall communication and description within the appraisal report, one area where the appraisers responsibility has diminished is in developing a cost approach to value for every report.

On previous forms, the appraiser was responsible for developing an indicated value by a cost approach. This required the appraiser first to research the market for vacant land sales in order to accurately identify a site value. The appraiser then used physical characteristics of the subject which include size, below grade finishing or unfinished area, additional features offered by the subject and garage storage. A replacement cost per square foot then had to be researched. The factor contributing to the estimated replacement cost is primarily the quality of construction. This estimate is based upon actual costs available from local builders and cost guides, such as Marshall and Swift, which may be adjusted for differences in costs of materials regionally.

The appraiser then estimates the physical, functional and external depreciation/ obsolescence that affect the subject property. Physical depreciation typically represents the wear and tear dwellings exhibit. Physical depreciation can typically be “cured” by repairs or updating decreasing overall physical depreciation. Functional depreciation takes place within the subject dwelling or site and can include an atypical layout, a steeply graded site or lack of hook up to public utilities. These too, could potentially be “cured”, but most likely are not financially feasible to do so. External depreciation occurs when something outside the subjects’ boundary negatively affects the subject’s overall value. This can include being on a busy street or close to an airport. Only time can “cure” these, as real property is immovable, and until the property use changes, it will represent an external obsolescence contributing depreciation.

Given the subjectivity of these three influences on property values, Fannie Mae has decided to make the cost approach optional. It is my opinion that the cost approach is most accurate and relevant when land sales are readily available and the subject property has been recently built. This is when physical depreciation would be nominal and easiest to estimate, say 10 years or newer.

Therefore, in the Appraisers Certification of the URAR 1004 form, Fannie Mae allows the appraiser to “...develop my opinion of the market value of the property that is the subject of the report based upon the sales comparison approach to value.” Additionally, the certification qualifies the appraiser has “... adequate comparable market data to develop a reliable sales comparison approach...”

Frequently Asked Questions:

Q: Can I order an interior inspection on the new 2055 form?

A: No, the scope of assignment will dictate the form type. The new 1004 URAR will be for interior inspections, while the new 2055 will be utilized for exterior appraisals only.

Mortgage Rates As of February 9

30 Year Fixed: **6.24%**
15 Year Fixed: **5.83%**
1- Year ARM: **5.34%**

Used with permission from
Freddie Mac

Forsythe Appraisals, LLC

**Quality residential
appraisals.
Fast turnaround.
Legendary
customer service.**

To find a branch
near you, please
visit:
ForsytheAppraisals.com

Forsythe Appraisals serves an area near you!

Boston, MA
Chicago, IL
Cleveland, OH
Colorado Springs, CO
Colorado Mountain Branch
Columbus, OH
Dallas, TX
Denver, CO
Detroit, MI
Duluth, MN
Hartford, CT
Houston, TX
Indianapolis, IN
Las Vegas, NV
Miami, FL
Milwaukee, WI
Orlando, FL
Phoenix, AZ
Providence, RI
Rochester, MN
Saint Cloud, MN
Seattle, WA
Southern Minnesota Branch
Spokane, WA
Tampa, FL
Tucson, AZ *NEW!
Twin Cities, MN