

# FORSYTHE FLASH



Appraisal Insights for the Real Estate Professional

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## Appraising over-improved properties

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This is a follow-up article from the Nov 3rd issue of the Forsythe Flash further examining the appraisal process when appraising an over improved property. Continuing with the example used in the prior article, an over improved property is when the subject property has 3200 square feet but the neighborhood consists of homes with 2000-2500 square feet. There are two ways for an appraiser to reconcile this over improvement in the sales comparison analysis: Reduce the gross living area per foot adjustment or make a negative adjustment for functional utility. Both approaches will take into consideration the subject's over improvement.

Fannie Mae states comparables from the subject's immediate neighborhood are the most meaningful. However, the appraiser should also provide at least one comparable with similar physical characteristics (for this example, provide a comparable with similar gross living area.) The appraiser may have to expand search parameters within the subject's market area, which may be different than the physical neighborhood. The subject's market area is typically defined as areas potential buyers would consider as a reasonable alternative due to similarities in access to civic amenities, recreational opportunities, employment or similar zoning.

The appraiser must be careful to insure that the land values are similar whenever comparables are selected from outside of the immediate neighborhood. It may be necessary for the appraiser to include land sales for each comparable outside the subject's neighborhood to insure proper site adjustments have been made. Once location adjustments have been reconciled the appraiser can make a direct comparison of the improvements. The appraiser should always place the primary weight on the comparables from the immediate neighborhood.

## Frequently Asked Questions:

**Q:** How does an appraiser determine if a neighborhoods "supply and demand" are in balance?

**A:** The appraiser must examine the absorption rate of the area. The absorption rate is the rate in which properties are sold in a given market or the average number of properties sold during a period of time versus the current inventory of properties in a market. Analyzing the supply and demand of an area helps the appraiser determine if property values are increasing, stable or decreasing. If there is an oversupply of properties in a market, average exposure time will increase which typically results in sellers reducing prices in order to make their property more competitive. This is considered to be a buyers market. If there is a shortage of properties, exposure time typically will remain low resulting in a sellers market where multiple offers for properties are common place.

## Mortgage Rates As of November 29

30 Year Fixed: **6.22%**  
15 Year Fixed: **5.76%**  
1- Year ARM: **5.15%**

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