

# FORSYTHE FLASH



Appraisal Insights for the Real Estate Professional

November 3, 2005

## Appraising Over-improved Property

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To better understand how an over-improved property is appraised, it is first necessary to define what constitutes an over-improved property. Over-improved properties are considered to be non-conforming to the neighborhood. The following are examples of what can make a property an over-improvement:

- o More gross living area (GLA) than all surrounding properties
- o Superior quality and finishing than surrounding properties
- o A below ground pool when none of the surrounding homes have a below ground pool.

Research of the local Multiple Listing Service, tax records and local builders would allow an appraiser to determine what is typical for a neighborhood in terms of GLA, quality and amenities. Once this research is performed, an appraiser can determine whether the subject property is conforming or if it is over-improved for the neighborhood.

There is one main principle that applies to properties that are over-improved. This is the principle of regression which states that the value of an over-improved property declines towards that of the surrounding homes.

For this discussion, we will use the example of a home that is over-improved due to having more GLA than all of the surrounding homes in the neighborhood. Let's say that our property has 3,200 square feet of living area and that the square footage for homes in the neighborhood ranges from 2,000 square feet to 2,500 square feet.

According to Fannie Mae, the most meaningful comparables are those found within the subject neighborhood. Conversely, sales outside of the neighborhood would be less meaningful than those found within the neighborhood. A common error made by appraisers when appraising such properties as stated above, is that they will utilize comparables outside of the subject neighborhood that are more similar in GLA. This leads to a distorted and often times inaccurate value. If the appraiser uses sales from a competing neighborhood made up of homes with similar GLA, this competing neighborhood is most likely a different market consisting of homes that are larger, and possibly superior in quality and/or appeal.

## From the Desk of .... John Forsythe

Due to the changes in the FannieMae forms and Desktop Underwriter (DO/DU), there are 11 new appraisal forms now required as additions and/or replacements to forms we are all accustomed to using. Attached is a one page document from FannieMae dated 10/28/2005 with details. We realize that many of our clients do not sell to FannieMae. Here at Forsythe, we will process your orders as you specify.

However, we should note that if you order an appraisal on an old version and you subsequently find it should have been ordered on one of the new forms, there will be a charge to redo the appraisal report. More is involved than merely transferring information from one report to another. In some cases it may involve further research and analysis, in addition to the report writing.

The fees for redoing a report form will vary by report originally ordered, what new form is required. If you have any questions, please give us a call. We look forward to working with you through this transition.

## Mortgage Rates As of November 3

30 Year Fixed: **6.31%**  
15 Year Fixed: **5.85%**  
1- Year ARM: **5.09%**

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