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Appraisal Insights for the Real Estate Professional



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Appraising High End Property

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In all real estate markets there are areas that show higher than typical value. Appraising in these areas can be both challenging and worthwhile. Whether a property has oceanfront views in Florida, is built on a golf course in South Carolina, on a lake front in Minnesota or has ski in/ski out access to one of Summit County, Colorado's four major ski resorts, high end real estate always starts with high end land value.

In the case of appraising a home in Colorado with ski access to Breckenridge Mountain, an appraiser will run into a number of challenges.

1. Typical homes with this proximity to ski areas will be custom designed structures on sloping lots with difficult angles to sketch. This makes determining Gross Living Area more complicated.
2. Due to the climate and amount of snow, pulling a tape measure around the home can be difficult.
3. Similar sales can be limited due to the unique nature of these homes.
4. Due to the high value and loan amount for these homes many lenders require multiple appraisals.
5. These areas can be especially susceptible to non-arms length transactions and quick-sales that are under market value. These can distort market value if not identified.

The first two challenges can easily be met by obtaining a set of approved building plans provided by the owner. Another way to verify floor plans and square footage is to visit the county building and planning office to view the approved plans required to be on site.

The lack of similar sales may require the appraiser to exceed the FNMA guidelines that comparables be within six months, one mile, and have gross adjustments less than 25%, net adjustments less than 15%, and individual adjustments not exceeding 10%. Checking for area sales over six months old and seeking comparables from neighboring ski communities is often necessary. An appraiser will often use six or more comparables for real estate with ski access. Additional comparables may be pending sales or active listings that reflect the subject's marketability.

When multiple appraisals are ordered for a single high end property, it is important that information is not shared between the appraisers. A range in value of up to 10% for accurate appraisals on the same property can be expected. Accurate measurements of the improvements and analysis of the subject market value must be found by each appraiser, individually. This is important as a safety net for the lender against possible errors on the appraisals.

When a sale is chosen as a comparable it is necessary for the appraiser to examine the transaction as a whole. In many cases a vacation home is sold to an estate or kept in the family for a price that does not reflect market value. If used as a comparable, this can distort the sales comparison approach and lead the appraiser to the incorrect value. The appraiser is required by USPAP to consider the sales contract for any comparable chosen to determine if there are any sale concessions paid and to see if the sale is a legitimate arms length transaction.

When an appraisal of high end property is needed, it is best for all involved to use a local appraiser who is experienced in that particular market. Your end result should be a defensible value with minimal underwriting concerns.

Mortgage Rates As of February 17

30 Year Fixed: **5.77%**

15 Year Fixed: **5.21%**

1- year ARM: **4.10%**

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