

Real estate appraisal reports

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Abstract. Real estate appraisal in Republic of Serbia is an area where are many unknowns. Fortunately, nowadays in Serbia we have two professional associations of appraisers. As we know there are two types of appraisal – mass and individual appraisal and both requires standardized reports. This paper presents forms of valuation reports for individual real estate appraisal with its advantages and disadvantages. Process of real estate appraisal is complex and consists of several steps described in detail in paper with emphasis on selection of the method for valuation. Real estate report presents the final step in the process of valuation. In order to ensure usage of uniform real estate appraisal reports, national and international associations have adopted standards. All standards prescribe the minimum of required contents of report (professional standards), as well as ethical standards in order to ensure that all appraisers act highly professional, responsible and with integrity, and general conditions. Despite all measures in standardization there are still many problems in implementation, especially in countries where English is not a native language due to the fact that all standards are written in English.

Keywords: standards, professional standards, ethical standards

Izveštaji o proceni vrednosti nepokretnosti

Apstrakt. Procena vrednosti nepokretnosti u Republici Srbiji još uvek predstavlja oblast sa velikim brojem nepoznanica. Na sreću danas u Srbiji postoje dva profesionalna udruženja procenitelja. Kao što je poznato postoje dva oblika procene vrednosti nepokretnosti – masovna i pojedinačna procena, i obe zahtevaju standardizovane izveštaje. U ovom radu biće predstavljene forme izveštaja za pojedinačnu procenu vrednosti nepokretnosti sa svojim prednostima i nedostacima. Proces procene vrednosti nepokretnosti je složen i sastoji se iz nekoliko koraka koji su detaljno opisani u radu sa akcentom na odabiru metode za procenu. Izveštaj o proceni vrednosti nepokretnosti predstavlja finalni korak u postupku procene. U cilju osiguranja upotrebe jednobraznih izveštaja o proceni vrednosti nepokretnosti, nacionalna i međunarodna udruženja usvojila su standarde. Svi standardi propisuju minimum zahtevanog sadržaja izveštaja (profesionalni standardi), kao i etičke standarde u cilju obezbeđivanja profesionalnog, odgovornog i celishodnog postupanja procenitelja, i opšte uslove. Uprkos preduzetim merama u postupku standardizacije i dalje postoji veliki broj problema u implementaciji, naročito u zemljama gde engleski nije maternji jezik zbog činjenice da su svi standardi napisani upravo na engleskom jeziku.

Ključne reči: standardi, profesionalni standardi, etički standardi

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1 Introduction

Real estate appraisal (or real estate valuation) in Republic of Serbia is an area where are many unknowns. Primarily, there is no legal basis for regulating this area and there is no clearly defined appraiser's profession. Two forms of appraisal – mass and individual appraisal are carried out in Serbia. Geodetic staff from Republic Geodetic Authority is working on development of models for the mass appraisal, which is defined by the Law on State Survey and Cadastre. Individual real estate appraisal shall be made by licensed forensic expert (civil engineering or geodetic experts), with the license of Ministry of Justice. Establishment of two professional associations of appraisers was important step in development of this profession in Serbia. These associations are organizing trainings for their members and working on introducing standards in this area. Important part of valuation standards is related to preparation and form of the valuation report.

This paper presents forms of valuation reports for individual real estate appraisal with its advantages and disadvantages. Significant part of the paper is dedicated to content of the report recommended by various professional associations.

2 Real estate appraisal steps

Real estate appraisal is a process consisting of several steps:

- Definition of the problem (definition of appraisal subject),
- Data collection and analysis,
- HABU analysis,
- Valuation,
- Selection of methods for the appraisal and
- Preparation of reports of the appraisal.

Under the **“problem definition”** are the definition real estate which is the subject of appraisal and identification of real estate. In addition, it defines the purpose of real estate appraisal.

“Data collection and analysis” involves the collection of data about the subject of appraisal collected by the relevant state and local institutions. Also it involves and collection of data necessary for the implementation of appraisal methods.

“HABU” (Highest and Best Use) analysis is the analysis of the largest and best utilization. In real estate valuation under this step is involved determination of the best use of appraisal subject (which works best).

„Valuation” is a step in which the calculations are made based on the value of standardized procedures as recommended by national and international association of appraisers.

“Selecting the method for valuation” includes choosing one of three approved methods for

determination of real estate value: coast method, income capitalization method or sales comparison method. All these methods are based on the various assumptions and are recommended for appraisal of different real estate types.

- The coast method is based on the assumptions about the construction of real estate with the same characteristics as the subject of appraisal. In this case, real estate value is determined based on the value of materials and value of intangible costs associated with the construction of real estate (work, obtaining permits, providing infrastructure connections etc.) The cost method of determining the real estate value is usually applied in determination of the value of real estate's intended for housing.
- Income capitalization method is based on determining the value of real estate based on the income expected from the property. This method is an approximate method for determination of the value of real estate and many of appraisers avoid using it. First, determination of the value if capitalization factor (necessary for determining the value of real estate using this method) is unknown for many appraisers. Capitalization factor is different for different types of real estates and it is difficult for determination in conditions under “stable” real estate market.
- The comparative sales method of valuation is based on determination of the value realized from buying and selling the similar types of real estates that are close to the location of the subject of appraisal. This method is widely used in determination of the value of residential real estates and in determination of value of land.

“Preparation of appraisal report” is the last step in appraisal process. Appraisal report can be made in various forms and in accordance with different standards.

3 Real estate appraisal report

Real estate appraisal report is the final step in the valuation. Real estate appraisal report may be in different forms:

- **Oral report** – this form of report is used only when appraiser is called to give an opinion of the value of real estate.
- **Formatted report** – this form of report is a standardized form (the checklist). This form of valuation report is the best way for standardized presentation of data and facilitates the exchange of data in electronic form and the creation of a single database. The lack of formatted report is that it doesn't allow a detailed description of the real estate characteristics as it is the case with

textual report.

Uniform Residential Appraisal Report File #

The purpose of this summary appraisal report is to provide the lender/client with an accurate, and adequately supported, opinion of the market value of the subject property.

Property Address		City	State	Zip Code							
Borrower		Owner of Public Record	County								
Legal Description											
Assessor's Parcel #		Tax Year	R.E. Taxes \$								
Neighborhood Name		Map Reference	Census Tract								
Occupant <input type="checkbox"/> Owner <input type="checkbox"/> Tenant <input type="checkbox"/> Vacant		Special Assessments \$	<input type="checkbox"/> PUD	HOA \$ <input type="checkbox"/> per year <input type="checkbox"/> per month							
Property Rights Appraised <input type="checkbox"/> Fee Simple <input type="checkbox"/> Leasehold <input type="checkbox"/> Other (describe)											
Assignment Type <input type="checkbox"/> Purchase Transaction <input type="checkbox"/> Refinance Transaction <input type="checkbox"/> Other (describe)											
Lender/Client		Address									
Is the subject property currently offered for sale or has it been offered for sale in the twelve months prior to the effective date of this appraisal? <input type="checkbox"/> Yes <input type="checkbox"/> No											
Report data source(s) used, offering price(s), and date(s).											
I <input type="checkbox"/> did <input type="checkbox"/> did not analyze the contract for sale for the subject purchase transaction. Explain the results of the analysis of the contract for sale or why the analysis was not performed.											
Contract Price \$		Date of Contract	Is the property seller the owner of public record? <input type="checkbox"/> Yes <input type="checkbox"/> No Data Source(s)								
Is there any financial assistance (loan charges, sale concessions, gift or downpayment assistance, etc.) to be paid by any party on behalf of the borrower? <input type="checkbox"/> Yes <input type="checkbox"/> No If Yes, report the total dollar amount and describe the items to be paid.											
Note: Race and the racial composition of the neighborhood are not appraisal factors.											
Neighborhood Characteristics				One-Unit Housing Trends			One-Unit Housing		Present Land Use %		
Location	<input type="checkbox"/> Urban	<input type="checkbox"/> Suburban	<input type="checkbox"/> Rural	Property Values	<input type="checkbox"/> Increasing	<input type="checkbox"/> Stable	<input type="checkbox"/> Declining	PRICE	AGE	One-Unit	%
Build-Up	<input type="checkbox"/> Over 75%	<input type="checkbox"/> 25-75%	<input type="checkbox"/> Under 25%	Demand/Supply	<input type="checkbox"/> Shortage	<input type="checkbox"/> In Balance	<input type="checkbox"/> Over Supply	\$ (000)	(yrs)	2-4 Unit	%
Growth	<input type="checkbox"/> Rapid	<input type="checkbox"/> Stable	<input type="checkbox"/> Slow	Marketing Time	<input type="checkbox"/> Under 3 mths	<input type="checkbox"/> 3-6 mths	<input type="checkbox"/> Over 6 mths	Low		Multi-Family	%
Neighborhood Boundaries								High		Commercial	%
Neighborhood Description								Pred.		Other	%
Market Conditions (including support for the above conclusions)											

Figure 1. One of the formatted reports - page 1 (Uniform Residential Appraisal Report – URAR, recommended by Federal National Mortgage Association – Fannie Mae)

– **Textual report** – this type of appraisal report can vary significantly in terms of scope and content. The scope and complexity of reports depend on the complexity of the appraisal subject.

All of above forms of appraisal reports have their advantages and disadvantages. The oral report on the opinion of value may be subject of misunderstanding because the client often doesn't know which parameters was appraiser considered in and how to anticipate their impact on the final value. In cases of disputes over appraised value, appraiser doesn't have a possibility to prove his opinion with valid arguments.

Formatted report is easy to analyze, easily readable and suitable for the transmission of data in database. The time needed for the preparation of this report is shorter than the time required for producing a textual report. However, the content of this report cannot be changed and there is not enough descriptive information about the real estate.

Textual report is quite flexible in terms of scope and content. The scope of the text can be from a few pages to several hundred pages. The advantage of this type of report is that the steps in the appraisal may gradually follow and that the characteristics of real estate can be presented in detail. The lack of this kind of report is that it takes more time for its preparation (compared to the formatted report) and that process of transferring data from these reports to database is more complicated.

The choice of the valuation report form depends primarily on the client and the purpose of valuation.

4 Real estate appraisal report standardization

Real estate appraisal reports are very different in form, content and scope. National and international associations of appraisers have adopted standards to ensure that their members have an uniform real estate appraisal reports. Standards upheld by most appraisers are:

- IVSC standards - adopted by International Valuation Standard Council
- RICS standards – adopted by Royal Institution of Chattered Surveyors
- EVS (European Valuation Standards) standards – adopted by The European Group of Valuers' Association
- USPAP (Uniform Standards of Professional Appraisal Practice) standards – adopted by The Appraisal Foundation

These reports prescribe the minimum content of report (technically), as well as the ethical standards which are appraisers required to adhere to. All these standards have a part about general conditions associated with appraisal practice.

4.1 General conditions

All national and international standards have an important part about general conditions about appraisal practice (conduct, management), preparation of report, confidentiality etc.

In RICS standards, general conditions in all standards are [2]:

- Understanding the appraiser's opinions,
- Format and detail of the report provide the minimum information about the real estate (maximum discretion of property rights),
- Minimum matters are included in report (list of minimum conditions is part of standards),
- Liability to the client,
- The appraiser must ensure that the report is not being used for any not agreed purposes.

In IVSC standards [3] states:

- The valuation report shall set out a clear and accurate description of the scope of the assignment, its purpose and use,
- The valuation report shall not be ambiguous or misleading,
- The level of detail appropriate to the valuation report is determined by the purpose of the valuation,
- All valuation reports shall include the minimum of information (list of minimum conditions is part of standards).

General conditions in different standards are very similar (some conditions are the same). These conditions are related with professional (technical) and ethical standards. In fact, the general conditions are introduction to the professional and ethical requirements.

4.2 Professional standards

Section on professional standards in standards of all professional associations of appraisers refers to minimum required content of the appraisal report. Minimum required content recommended by various associations is similar at contains:

- Identification of the client(s),
- Identification and qualification of appraiser,
- The purpose of valuation,
- The subject of valuation,
- The interest to be valued,
- The type of property and the way of use,
- The basis of the valuation,
- The date of valuation,
- Any assumption, special assumptions and reservations,
- Nature and source of information needed for valuation,
- Confirmation that appraisal is in accordance with standards (wherewith),
- The opinions of value, in figures and words,
- Signature of appraiser and date of the report.

If the estimated value is expressed in a currency other than the country's official, appraiser must include official exchange rate on the date of valuation and the value expressed in official currency. Important part of appraisal report is note about publication restrictions, if it is necessary to restrict the use of the valuation report.

4.3 Ethical standards

Professional associations of appraiser's have an aim that all their members are working in the same way. In order to facilitate this, the associations created professional standards that enable the same way of the valuation implementation and reporting (for all members adhere to the standards). Goal of providing a high standard of services includes not only the requirements set put in the professional standards. A high standard of service (especially at the global level) means the same rules of conduct for all members of the association.

In 2012th RICS published *Global Professional and Ethical Standards* [4]. Members of RICS adhere to the following ethical standards:

- Act with integrity,
- Provide a high standard of service,
- Act in a way that promotes trust in the profession,
- Treat others with respect,
- Take responsibility.

These conditions can be considered as the basic rules of behavior in any company that aims at providing highest quality and professional service.

USPAP [5] ethic rules are divided into 4 areas:

- Conduct (to perform assignments ethically and competently, not to advocate the cause of interest of any client etc.),
- Management (advertising false, baseless and misleading information is unethical etc.),
- Confidentiality (to protect the confidential nature of the appraiser-client relationship etc.) and
- Record keeping (an appraiser must prepare a work file for each appraisal etc.).

Ethical standards (codes of conduct or codes) are very important component at all organizational levels in modern business. Not meeting the requirements may lead to disciplinary action. In appraisers practice it is the same – members of professional associations, which recommends the use of certain standards, are obliged to respect professional and ethical standards noted in certain standards.

5 Conclusions

Although the question of the content of appraisal reports is significantly solved by the standard, diversity in terms of the look of the report is still present. This is due to the fact that appraisers have different interpretations of the standards, especially if standards are not in their native language. The reasons why national and international associations of appraisers are started translating standards allowed a greater number of appraisers to do their work highly professional.

For now, IVSC and EVS standards are available on Serbian language which is a major step in the development of appraisal in Serbia. Further development of real estate appraisal as a discipline will be possible with amendments to the legislation, defining the

Appraisers profession (by Serbian Chamber of Engineers), changing educational system and forming study programme for appraisers. Also, involvement in the work of international associations is an important task.

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Real estate appraisal, property valuation or land valuation is the process of developing an opinion of value for real property (usually market value). Real estate transactions often require appraisals because they occur infrequently and every property is unique (especially their condition, a key factor in valuation), unlike corporate stocks, which are traded daily and are identical (thus a centralized Walrasian auction like a stock exchange is unrealistic). The location also plays a key role in... Real Estate Appraisals: A PDF Proof of Concept for Electronic Valuation Reports. TABLE OF CONTENTS 1 Industry overview 2 The Players 2 The Issues 4 The Process 4 Proof of Concept 6 Features and Benefits 7 Conclusion. MEETING THE NEEDS OF A DYNAMIC INDUSTRY – This proof of concept is a demonstration of the range of tools and applications that appraisers have when using PDF documents. – John Ross CEO of the Appraisal Institute. Industry Overview. The real estate, construction and mortgage services industries make up about 25% of the US economy. Each has a role in the building, sale and resale, and financing of nearly 8 million new and existing homes each year (excluding refinancing or second-ary financing). Real estate agents use CMAs to help their clients determine realistic asking and offering prices. Appraisals are detailed reports compiled by licensed appraisers. An appraisal is the only valuation report a lender considers when deciding whether to lend the money. An appraisal is also not the same thing as a home inspection. Home inspectors test appliances and outlets, check the plumbing, and confirm that a home's heating and cooling system is working. Such information is helpful for the buyer to know before moving in. An appraiser, however, is only concerned with valuing a home. Key Takeaways. A real estate appraisal establishes a property's market value; lenders require appraisals when buyers use their homes as security for their mortgages.