

Appraising Proposed Residential Construction

1. Construction Financing (10 min)

- a. Project Types, Financing and Fund Control
 - i. Owner Occupied – Consumer Loan (refinance)
Loan structure, inspections draws, final inspection
 - ii. Spec Built – Commercial Real Estate Loan
Loan structure, inspection draws, final inspection
 - iii. Subdivisions – Consumer Loan (purchase)
Loan structure, final inspections (no fund control)
Fannie Mae guidelines for new project comp selection

2. USPAP and Proposed Construction (10 min)

- a. Discuss Advisory Opinion 17
- b. Discuss Standard Rule 1-2(e)(v)
 - i. Alternatives to plans, including model homes

3. Valuation Mechanisms, USPAP & the Interagency Guidelines (20 mins)

- a. Extraordinary Assumption (Prospective Value)
- b. Hypothetical Condition (Current Value)
USPAP required disclosures for each
- c. What are the Interagency Guidelines? What are their requirements for proposed construction? How do these requirements differ from the GSE forms?
 - i. Interagency Guidelines = Prospective Value
 - ii. GSEs = Current Value
How to comply
- d. As-Is Values
 - i. Interagency Requirements
 - ii. Why do lenders want the as-is value?

4. Cost Approach (40 min)

- a. Why is the Cost Approach applicable for new construction?
- b. Analyzing Submitted Costs
 - i. Are the costs reasonable? Is the project viable?
- c. Forms of Profit
 - i. Builders Profit and Entrepreneurial Profit, what's the difference?
 - ii. Which are included in cost manuals?
 - iii. Examples of Builder Profit with median and mean
 - iv. Examples of Entrepreneurial Profit with median and mean
- d. Three Cost Breakdown Examples
 - i. Well prepared and poorly prepared – including examples missing overhead, profit, supervision and soft costs
 - ii. What do when the submitted cost and specs are insufficient

- e. Reconciling the Cost Approach with Submitted Costs
 - i. Two 'real world' Cost Approaches and how to compare with builder submitted costs

5. Sales Comparison Approach (5 min)

- a. The Sales Approach does not differ for proposed construction
 - i. Judging quality by reviewing plans, costs and finish schedule
 - ii. Relevant Characteristics

6. GSE Report Exhibit Requirements (5 min)

- a. Sketch
- b. Photos
 - i. What photos are necessary when no improvements exist?

7. Final Inspections and Updates (15 min)

- a. Final Inspection (1004D)
 - i. Prior service disclosure requirements
 - ii. Photos (don't forget smoke and CO detectors)
 - iii. Certificate of Occupancy
- b. Appraisal Update (1004D)
 - i. Prior service disclosure requirements
 - ii. Update = New Appraisal
 - iii. 1004D is an Appraisal Report – Summary of analysis is required – may require an addendum
 - iv. Ways to support update conclusion
 - New comps
 - Market trend analysis

8. Summary (5 min)

- i. Ask your clients if they need prospective value.
- ii. Ask your clients if they require as-is value.
- iii. Land value is important.
- iv. Check that cost breakdowns include all soft costs, including permits and overhead, profit and supervision.
- v. Consider entrepreneurial profit.

9. Questions (10 min)