

MENU OF VALUATION SERVICES PERFORMED BY REAL ESTATE APPRAISERS

ENHANCED EDITION



CRE Loan Renewal, Refinancing, and Other Subsequent Transactions

This Menu of Valuation Services is intended to assist commercial real estate lenders, including real estate credit risk officers and managers and similar persons (Chief Appraisers) in understanding the range of services that can be delivered by professional real estate appraisers. With \$3.5 trillion in commercial real estate debt outstanding, it is imperative for financial institutions to monitor collateral values as loan workouts, renewals and restructurings occur in accordance with agency regulations and guidelines. This menu describes the different options that can be delivered by real estate appraisers for regulatory compliance, portfolio and loan monitoring, and risk management purposes. The services will vary depending on the collateral position and agency requirements outlined in the *Interagency Appraisal and Evaluation Guidelines* and other policies such as the *Policy Statement on Prudent Commercial Real Estate Workouts*. Users of appraisal services are strongly encouraged to ensure regulatory compliance for any of the services outlined below.

VALUATIONS³

1. **Scope of work** options (appraisal development process) could be, but are not limited to:
 - a. Narrowed⁴. Ways to narrow scope may include:
 - i. "Update"⁵ (when there is a previous appraisal)
 - ii. No inspection ("desktop appraisal")
 - iii. "Drive-by" inspection only
 - iv. Information about subject property taken from prior report and assumed to be accurate
 - v. Information about subject property taken from public records and assumed to be accurate
 - vi. Primary approach to value only
 - vii. Value conclusion range only
 - viii. Value conclusion "at least \$x," "not more than \$x" only
 - b. Intense. For example, might include:
 - i. Thorough inspection
 - ii. Information about subject property independently researched and verified by the appraiser
 - iii. All applicable approaches to value
 - iv. Value conclusion a pinpoint number
2. **Level of reporting** could be:
 - a. Very brief (Restricted Use Appraisal Report⁶)
 - i. RUAR does not need to include data and analysis (i.e., does not need to "show work" of appraiser), though a lender most likely will need the RUAR report to also include comparables and discussion of the property condition to meet FIRREA minimum requirements. RUAR at minimum can be as brief as 2 pages
 - ii. Workfile required. Appraiser needs to be able to "pull together" evidence of how s/he arrived at opinions/conclusions
 - b. More detailed (Summary Appraisal Report)
 - c. Most comprehensive presentation of analysis and data (Self Contained Report)
 - d. "Update"⁷ (when there is a previous appraisal)
3. **Value type**⁸ could be:
 - a. Market value
 - i. As Is: to meet FIRREA requirements must always be included
 - ii. As Stabilized
 - iii. As Complete
 - b. Liquidation value
 - c. Disposition value
 - d. Fair value

¹As of January 2010

³When performed by an appraiser, USPAP applies. Valuations (appraisals, evaluations) of real property fall specifically under Standards 1 and 2.

⁴Elimination of important steps in a complete appraisal process may result in less reliable value opinions and increased risk.

⁵"Updates" constitute an appraisal per USPAP.

⁶Appraisers can provide services to satisfy lender "evaluation" requirements, but they do so with "appraisals", specifically a RUAR that includes the data and analysis requirements found in the Interagency Appraisal and Evaluation Guidelines.

⁷Ibid.

⁸Date of value can be current, prospective, or retrospective.

4. **Other Valuation Services⁹:**

- a. Rental value only¹⁰
 - 1. Conclusion of market rent for subject
 - 2. Conclusion of net income for subject
- b. Cap/discount rate analysis
- c. Cost analysis
- d. Subject property inspection (no valuation)
- e. Market analysis (no specific subject property)
- f. Rent survey (for property type, no specific subject property)
- g. Data pull¹¹
- h. Inspection and Public Records Search
- i. Price Analysis

APPRAISAL REVIEW¹²

- 1. Reviewer develops own value opinion and reports it within the review report
- 2. Reviewer does not develop own value opinion

To find a qualified appraiser, visit the Appraisal Institute website Find an Appraiser function – www.appraisalinstitute.org/findappraiser.

Members who hold the MAI, SRPA and SRA designations have met rigorous requirements relating to education, experience and demonstration of knowledge, understanding and ability. Associate members of the Appraisal Institute are individuals who engage in activity governed by the Uniform Standards of Professional Appraisal Practice and who may be pursuing an Appraisal Institute professional membership designation. All members agree to abide by the organization's Code of Professional Ethics and Standards of Professional Appraisal Practice (which include the Uniform Standards of Professional Appraisal Practice).

⁹If an appraiser provides more than one of these "Other Valuation Services", such as a conclusion of NOI and a Cap Rate the user could apply the Cap Rate to the NOI and say that the result is the appraiser's value conclusion-even if the appraiser did not take that step.

¹⁰Technically a rental value opinion is an appraisal and is therefore subject to Standards 1 and 2

¹¹Sales data involving specific property type, selected according to specific parameters such as size, date of sale, specified location. A) Pulling data based on certain parameters - e.g., "All sales of concrete tilt-up warehouses, 10,000 to 20,000 sf, in zip code area 12345 that closed in the last six months according to public records": Allowed under USPAP. Not an appraisal. Not subject to anything in Standards 1-10, but subject to Ethics and Competency Rules. B) Pulling data, sorting it, concluding as to what's comparable for a specific subject property, and presenting that information as "comparables": Could be construed as an appraisal because sets forth - or at least implies - a range of value for a subject property. Will most likely be viewed that way by the client. C) Pulling data, sorting it etc. as in 2 above, and conveying to client that the subject property is worth \$X, or is/not worth "at least \$X": This is acceptable, but it's an appraisal. Must be done according to USPAP and specifically Standards 1 and 2. That means the conclusion given needs to be properly developed. Reporting could be verbal, but there needs to be enough in workfile to create a written Summary report.

¹²When performed by an appraiser, USPAP applies. An appraisal review is an analysis of another appraiser's work. Appraisal reviews fall specifically under Standard 3.