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)