

# Selling Guide

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## B4-1.3-05, Improvements Section of the Appraisal Report (12/15/2021)

### Introduction

This topic contains information on reviewing the Improvements section of the appraisal report form, including:

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### Overview

The appraisal must provide a clear, detailed, and accurate description of the improvements. The description must be as specific as possible, commenting on such things as needed repairs, additional features, and modernization, and should provide supporting addenda, if necessary. If the subject property has an accessory dwelling unit, the appraisal should describe it.

### Conformity of Improvements to Neighborhood

The improvements should conform to the neighborhood in terms of age, type, design, and materials used for their construction. If there is market resistance to a property because its improvements are not compatible with the neighborhood or with the requirements of the competitive market because of adequacy of plumbing, heating, or electrical services; design; quality; size; condition; or any other reason directly related to market demand, the appraiser must address the impact to the value and marketability of the subject property. However, the lender should be aware that many older neighborhoods have favorable heterogeneity in architectural styles, land use, and age of housing. For example, older neighborhoods are especially likely to have been developed through custom building. This variety may be a positive marketing factor.

### Unique Housing Types

In the appraisal and appraisal report review processes, special consideration must be given to properties that represent unique housing for the subject neighborhood. Mortgages secured by unique or nontraditional types of housing, including, but not limited to, earth houses, geodesic domes, and log houses, are eligible for delivery to Fannie Mae provided the appraiser has adequate information to develop a reliable opinion of market value. It is not necessary for one or more of the comparable sales to be of the same design and appeal as the property that is being appraised, although appraisal accuracy is enhanced by using comparable sales that are the most similar to the subject property. On a case-by-case basis, both the appraiser and the underwriter must independently determine whether there is sufficient information available to develop a reliable opinion of market value. This will depend on the extent of the differences between the special or unique property and the more traditional types of houses in the neighborhood and the number of such properties that have already been sold in the neighborhood.

When appraising unique properties,

- if the appraiser cannot locate recent comparable sales of the same design and appeal, but is able to determine sound adjustments for the differences between the comparables that are available and the subject property and demonstrate the marketability of the property based on older comparable sales, comparable sales in competing neighborhoods, the existence of similar properties in the market area, and any other reliable market data, the property is acceptable as security for a mortgage deliverable to Fannie Mae;
- if the appraiser is not able to find any evidence of market acceptance, and the characteristics of the property are so significantly different that he or she cannot establish a reliable opinion of market value, the property is not acceptable as security for a mortgage deliverable to Fannie Mae.

Fannie Mae does not specify minimum size or living area requirements for properties with the exception of manufactured housing (see [B4-1.4-01, Factory-Built Housing: Manufactured Housing](#)). There should be comparables of similar size to the subject property to support the general acceptability of a particular property type.

### Actual and Effective Ages

Fannie Mae does not place a restriction on the actual age of the dwelling. Older dwellings that meet Fannie Mae's general requirements are acceptable. Improvements for all properties must be of the quality and condition that will be acceptable to typical purchasers in the subject neighborhood.

The relationship between the actual and effective ages of the property is a good indication of its condition. A property that has been well-maintained generally will have an effective age somewhat lower than its actual age. On the other hand, a property that has an effective age higher than its actual age probably has not been well-maintained or may have a particular physical problem. In such cases, the lender should pay particular attention to the condition of the subject property in its review of any appraisal report. When the appraiser makes adjustments for the "Year Built," he or she must explain the adjustments that were made.

### Remaining Economic Life

Fannie Mae does not have any requirements related to the remaining economic life of the property. However, related property deficiencies must be discussed in the sections of the appraisal report that address the improvements analysis and comments on the condition of the property.

Fannie Mae's appraisal report forms are designed to meet the needs of several different user groups; consequently, the report forms address the remaining economic life for the property being appraised. However, appraisers are not required to report this information. If appraisers report this information, lenders do not need to consider remaining economic life because any related property deficiencies will be discussed in the sections of the appraisal report that address the improvements analysis and comments on the condition of the property.

### Energy Efficient Improvements

An energy-efficient property is one that uses resource-effective design, materials, building systems, and site orientation to conserve nonrenewable fuels.

Special energy-saving items must be recognized in the appraisal process and noted on the appraisal report form. For example, when completing the appraisal report (Form 1004), special energy-efficient items are to be addressed in the Improvements section in the Additional features field. The nature of these items and their contribution to value will vary throughout the country because of climactic conditions, differences in utility costs, and overall market reaction to the cost of the feature. Some examples of special energy-efficient features may include, but are not limited to, energy efficient ratings or certifications, programmable thermostats, solar photovoltaic systems, solar panels, low-e windows, insulated ducts, and tank-less water heaters.

Appraisers must compare energy-efficient features of the subject property to those of comparable properties in the Sales Comparison Approach adjustment grid. Appraisers may augment the Sales Comparison Approach in evaluating any impact (either positive or negative) to the value of energy efficiency improvements with either the income or cost approach; however, appraisers cannot adjust the value of the property

- on a mechanical dollar-for-dollar basis based on equipment and installation cost, or the discounted present value of expected cost savings of the equipment over the useful life of the equipment; or
- solely based on the cost or income approach. The appraiser must also analyze the market reaction to the energy efficient feature.

Solar panels that are leased from or owned by a third party under a power purchase agreement or other similar financing arrangement must be considered personal property and not be included in the appraised value of the property. See [B2-3-04, Special Property Eligibility Considerations](#), for additional eligibility requirements for properties with solar panels.

### Layout and Floor Plans

Dwellings with unusual layouts and floor plans generally have limited market appeal. A review of the room list and floor plan for the dwelling unit may indicate an unusual layout, such as bedrooms on a level with no bath, or a kitchen on a different level from the dining room. If the appraiser indicates that such inadequacies will result in market resistance to the subject property, he or she must make appropriate adjustments to reflect this in the overall analysis. However, if market acceptance can be demonstrated through the use of comparable sales with the same inadequacies, no adjustments are required.

### Gross Living Area

Appraisers must follow the Square Footage-Method for Calculating: ANSI® Z765-2021- when measuring, calculating and reporting the gross living area and non-gross living areas (basement, additional structures, etc.) of the subject property. Appraisals requiring interior and exterior inspections must follow this standard; appraisals of this type performed without using this standard will not be acceptable.

The most common comparison for one-unit properties, including units in PUD, condo, or co-op projects, is above-grade gross living area and below-grade square footage. The appraiser must be consistent when reporting the finished above-grade gross living area, below-grade square footage, and room count. The need for consistency also applies from report to report. For example, when using the same transaction as a comparable sale in multiple reports, the room count and gross living area must not change.

When using sketching or 3D scanning software, the resulting output must also conform to the Square Footage-Method for Calculating: ANSI® Z765-2021 standards. See *Exhibits for Appraisals* in [B4-1.2-01, Appraisal Report Forms and Exhibits](#) for additional information on sketches and floor plans.

Only finished above-grade areas can be used in calculating and reporting of above-grade room count and square footage for the gross living area. **Fannie Mae considers a level to be below-grade if any portion of it is below-grade, regardless of the quality of its finish or the window area of any room. Therefore, a walk-out basement with finished rooms would not be included in the above-grade room count.** Rooms that are not included in the above-grade room count may add substantially to the value of a property, particularly when the quality of the finish is high. For that reason, the appraiser should report the basement or other partially below-grade areas separately and make appropriate adjustments for them on the Basement & Finished Rooms Below-Grade line in the Sales Comparison Approach adjustment grid.

Detached structures with finished square footage must be reported on a different line in the adjustment grid and not included as part of the subject's reported gross living area.

When the subject property has an area that does not meet the ANSI minimum ceiling height requirements, the additional square footage must be reported on an additional line in the adjustment grid and an appropriate market adjustment applied, if warranted. Additionally, the appraiser must provide an explanation in the report for how this area was handled in order to comply with the ANSI standard and also acknowledge any contribution of the additional square footage.

If the appraiser is unable to adhere to the Square Footage-Method for Calculating: ANSI® Z765-2021 standard they must enter "GXX001-" at the beginning of the Additional Features field of the appraisal and provide an explanation of why they were not able to comply. For example, if the appraiser is performing an appraisal in a state that requires adherence to a different measuring standard, then the loan may still be eligible for purchase by Fannie Mae.

### Gross Building Area

The gross building area

- is the total finished area including any interior common areas, such as stairways and hallways of the improvements based on exterior measurements;
- is the most common comparison for two- to four-unit properties;
- must be consistently developed for the subject property and all comparables used in the appraisal;
- must include all finished above-grade and below-grade living areas, counting all interior common areas such as stairways, hallways, storage rooms; and
- cannot count exterior common areas, such as open stairways.

Fannie Mae will accept the use of other comparisons for two- to four-unit properties, such as the total above-grade and below-grade areas discussed in Gross Living Area, provided the appraiser

- explains the reasons he or she did not use a gross building area comparison, and
- clearly describes the comparisons that were made.

### Accessory Dwelling Units

An ADU is generally an additional living area independent of the primary dwelling that may have been added to, created within, or detached from the primary dwelling. The ADU must have basic requirements for living, sleeping, cooking, and bathroom facilities on the same parcel as the primary dwelling. See [B2-3-04, Special Property Eligibility Considerations](#), for complete ADU eligibility requirements.

When reporting the living area of an ADU, it should not be included with the Gross Living Area calculation of the primary dwelling. It should be reported and adjusted for on a separate line in the grid, unless the ADU is contained within or part of the primary dwelling with interior access and above grade. If a standalone structure does not meet the ADU minimum requirements, it should be treated as any other ancillary structure and included as a separate line item in the sales comparison approach then adjusted based on its contributory value to the subject property.

Whether a property is defined as a one-unit property with an ADU or a two- to four-unit property will be based on the characteristics of the property, which may include, but are not limited to, the existence of separate utility meter(s), a unique postal address, and whether the unit can be legally rented. The appraiser must determine compliance with this definition as part of the analysis in the Highest and Best Use section of the appraisal. When there is an ADU, the appraisal report must include a description of the ADU and analysis of any effect it has on the value or marketability of the subject property. The appraisal report must demonstrate that the improvements are acceptable for the market. An aged settled sale will qualify as a comparable, and an active listing or under contract sale will qualify as a supplemental exhibit to show marketability.

#### Zoning for an ADU

If it is determined that the property contains an ADU that is not allowed under zoning (where an ADU is not allowed under any circumstance), the property is eligible under the following additional conditions:

- The lender confirms that the existence will not jeopardize any future property insurance claim that might need to be filed for the property.
- The illegal use conforms to the subject neighborhood and to the market.
- The property is appraised based upon its current use.
- The appraisal report states that the improvements represent a use that does not comply with zoning (“illegal” use).
- The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least two comparable sales with the same non-compliant zoning use. Aged settled sale(s) with the same non-compliant zoning use are acceptable if recent sales are not available. At a minimum, the appraisal report must include a total of three settled sales.

See [B4-1.3-04, Site Section of the Appraisal Report](#), for subject property zoning information.

#### Additions without Permits

If the appraiser identifies an addition(s) that does not have the required permit, the appraiser must comment on the quality and appearance of the work and its impact, if any, on the market value of the subject property.

#### Properties with Outbuildings

A lender must give properties with outbuildings special consideration in the appraisal report review to ensure that the property is residential in nature. Descriptions of the outbuildings should be reported in the Improvements and Sales Comparison Approach sections of the appraisal report form.

Type of Outbuilding	Acceptability
Minimal outbuildings, such as small barns or stables, that are of relatively insignificant value in relation to the total appraised value of the subject property.	The appraiser must demonstrate through the use of comparable sales with similar amenities that the improvements are typical of other residential properties in the subject area for which an active, viable residential market exists.
An atypical minimal outbuilding.	The property is acceptable provided the appraiser’s analysis reflects little or no contributory value for it.
Significant outbuildings, such as silos, large barns, storage areas, or facilities for farm-type animals.	The presence of the outbuildings may indicate that the property is agricultural in nature. The lender must determine whether the property is residential in nature, regardless of whether the appraiser assigns value to the outbuildings.

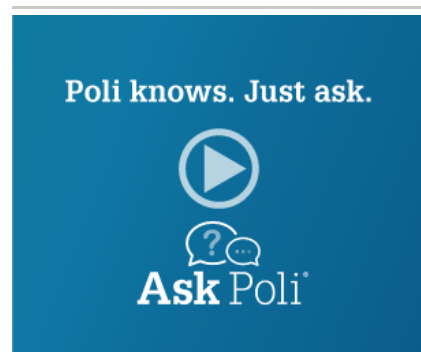
#### Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2021-11</a>	December 15, 2021
<a href="#">Announcement SEL-2020-05</a>	September 02, 2020
<a href="#">Announcement SEL-2020-04</a>	August 05, 2020
<a href="#">Announcement SEL-2016-08</a>	October 24, 2016
<a href="#">Announcement SEL-2015-10</a>	September 29, 2015
<a href="#">Announcement SEL-2014-16</a>	December 16, 2014
<a href="#">Announcement SEL-2014-03</a>	April 15, 2014
<a href="#">Announcement SEL-2011-11</a>	October 25, 2011
<a href="#">Announcement 08-30</a>	November 14, 2008

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