



Selling Guide

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► [Guide Table of Contents](#)

Search guide content



[BACK TO PART B](#) ►

B4-1.3-05: Improvements Section of the Appraisal Report (04/15/20

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

- Overview
- Conformity of Improvements to Neighborhood
- Unique Housing Types
- Actual and Effective Ages
- Remaining Economic Life
- Energy Efficient Improvements
- Layout and Floor Plans
- Gross Living Area
- Gross Building Area
- Accessory Units
- Additions without Permits
- Properties with Outbuildings

Overview

The appraisal must provide a clear, detailed, and accurate description of the improvements. The description should be as detailed as possible, commenting on such things as needed repairs, additional features, and modernization, and should include any addenda, if necessary. If the subject property has an accessory 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. If there is market resistance to a property because its improvements are not compatible with the neighborhood of the competitive market because of adequacy of plumbing, heating, or electrical services; design; quality; or any other reason directly related to market demand, the appraiser must address the impact to the value and the property. However, the lender should be aware that many older neighborhoods have favorable heterogeneous land use, and age of housing. For example, older neighborhoods are especially likely to have been developed over time. 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 with unique housing for the subject neighborhood. Mortgages secured by unique or nontraditional types of housing, including earth houses, geodesic domes, and log houses, are eligible for delivery to Fannie Mae provided the appraiser provides information to develop a reliable opinion of market value. It is not necessary for one or more of the comparables to have the same design and appeal as the property that is being appraised, although appraisal accuracy is enhanced when the comparables are the most similar to the subject property. On a case-by-case basis, both the appraiser and the underwriter must determine whether there is sufficient information available to develop a reliable opinion of market value. The appraiser should consider 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 make adjustments for the differences between the comparables that are available and the subject property, the appraiser should comment on the marketability of the property based on older comparable sales, comparable sales in competing neighborhoods, and similar properties in the market area, and any other reliable market data, the property is acceptable for delivery to Fannie Mae;
- if the appraiser is not able to find any evidence of market acceptance, and the characteristics of the property are so different that he or she cannot establish a reliable opinion of market value, the property is not acceptable for delivery to Fannie Mae.

Fannie Mae does not specify minimum size or living area requirements for properties with the exception

[B4-1.4-01, Factory-Built Housing: Manufactured Housing](#)). There should be comparables of similar size 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 requirements are acceptable. Improvements for all properties must be of the quality and condition that would be expected by purchasers in the subject neighborhood.

The relationship between the actual and effective ages of the property is a good indication of its condition. A well-maintained property generally will have an effective age somewhat lower than its actual age. On the other hand, a property with an effective age higher than its actual age probably has not been well-maintained or may have a particular feature that is not typical. In such cases, the lender should pay particular attention to the condition of the subject property in its review of an appraisal. If an 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, any deficiencies must be discussed in the sections of the appraisal report that address the improvements and the condition of the property.

Fannie Mae's appraisal report forms are designed to meet the needs of several different user groups; each form addresses 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 deficiencies will be discussed in the sections of the appraisal report that address the improvements and the condition of the property.

Energy Efficient Improvements

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

Special energy-saving items must be recognized in the appraisal process and noted on the appraisal report. When completing the appraisal report (Form 1004), special energy-efficient items are to be addressed in the Itemized Additional Features field. The nature of these items and their contribution to value will vary throughout the market. Differences in utility costs, and overall market reaction to the cost of the feature. Some examples of energy-efficient features may include, but are not limited to energy efficient ratings or certifications, programmable thermostats, 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 Approach adjustment grid. If the appraiser's analysis determines that an adjustment is warranted based on such item(s), the adjustment must be included in the adjustment grid.

Layout and Floor Plans

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

Gross Living Area

The most common comparison for one-unit properties, including units in PUD, condo, or co-op projects, is the finished above-grade area. The appraiser must be consistent when he or she calculates and reports the finished above-grade area. The need for consistency also applies from report to report. In the same transaction as a comparable sale in multiple reports, the room count and gross living area should be consistent.

When calculating gross living area

- The appraiser should use the exterior building dimensions per floor to calculate the above-grade gross living area.
- For units in condo or co-op projects, the appraiser should use interior perimeter unit dimensions to calculate the above-grade area.
- Garages and basements, including those that are partially above-grade, must not be included in the gross living area.

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

For consistency in the sales comparison analysis, the appraiser should compare above-grade areas to a below-grade areas to below-grade areas. The appraiser may need to deviate from this approach if the subject property does not lend itself to such comparisons. For example, a property built into the hillside is significantly out of ground, the interior finish is equal throughout the house, and the flow and function by the local market, may require the gross living area to include both levels. However, in such instances, the appraiser should be consistent throughout the appraisal in his or her analysis and explain the reason for the deviation, clearly stating what was made.

Gross Building Area

The gross building area

- is the total finished area including any interior common areas, such as stairways and hallways of the 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, 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 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 Units

Fannie Mae will purchase a one-unit property with an accessory dwelling unit. An accessory dwelling unit is a living area independent of the primary dwelling unit, and includes a fully functioning kitchen and bathroom. Accessory units include a living area over a garage and basement units. Whether a property is a one-unit property with an accessory unit will be based on the characteristics of the property, which may include, but are not limited to, the location, utilities, a unique postal address, and whether the unit is rented. The appraiser is required to provide a detailed description of the unit, and analyze any effect it has on the value or marketability of the subject property.

If the property contains an accessory unit, the property is eligible under the following conditions:

- The property is one-unit.
- The appraisal report demonstrates that the improvements are typical for the market through an anal comparable property with the same use.
- The borrower qualifies for the mortgage without considering any rental income from the accessory unit ([Income](#), for further information.)

If it is determined that the property contains an accessory dwelling unit that does not comply with zoning, the following additional conditions:

- The lender confirms that the existence will not jeopardize any future hazard insurance claim that might be filed on the property.
- The use conforms to the subject neighborhood and to the market.
- The property is appraised based upon its current use.
- The appraisal must report that the improvements represent a use that does not comply with zoning.
- The appraisal report must demonstrate that the improvements are typical for the market through an anal comparable properties that have the same non-compliant zoning use.

(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 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 they are residential in nature. Descriptions of the outbuildings should be reported in the Improvements and Sales 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 comparable sales with similar amenities that the outbuildings are typical of other residential properties which are active, viable residential markets.
An atypical minimal outbuilding.	The property is acceptable provided that the outbuilding reflects little or no contributory value to the property.
Significant outbuildings, such as silos, large barns, storage areas, or facilities for farm-type animals.	The presence of the outbuildings may be agricultural in nature. The lender must ensure that the property is residential in nature, and the appraiser assigns value to the outbuildings only if they are residential in nature.

Related Announcements

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

Announcements	Issue Date
Announcement SEL-2014-03	April 15, 2014
Announcement SEL-2011-11	October 25, 2011
Announcement 08-30	November 14, 2008

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