



Top 5 Appraisal Issues

The following is a list of the “Top 5” observations/issues/problems/concerns we have with the multifamily appraisals Freddie Mac has been receiving (not in any particular order, though). Lenders and appraisers should be particularly aware of these issues have these items addressed prior to the report's delivery to Freddie Mac's underwriters:

1. Appraiser's market rents are too dissimilar from the subject property's actual recent leasing activity without adequate explanation
2. Appraiser's operating expense conclusions are not supported by the appraiser's own expense comparables from the subject's market area. When we review an appraisal, we pull out property taxes and analyze those separately, then compare the appraiser's expense comparables' core expenses to the appraiser's estimate of the subject's operating expenses. This type of analysis eliminates the influence of any jurisdictional differences in property tax assessment variations.
3. The capitalization rate development and supporting discussion is/are weak
4. Adjustments for the comparable sales are not adequately explained
5. The results of third-party reports (environmental, property condition, zoning, etc.) are not typically incorporated in the appraisal report. And, lacking a third-party consulting report, the appraisers are not providing their own observations from their physical inspection of the subject property. Instead, we see this type of language:

“We did not receive an environmental report or property condition report and we are not experts in this field, so we have no knowledge about the subject's environmental or property condition issues.”

Lacking a third-party consulting report, we expect the appraiser to say something like:

“Even though we did not receive a draft environmental or property condition report, we walked around the subject site, including the rear of the buildings, the parking structure, the maintenance shed, the pool area, and down by the stream and over by the storm water management pond (etc., etc.) and did not observe any obvious indicators of environmental contamination or adverse property condition issues <or whatever they saw>.”

The common thread in all five of these issues is typically that the appraiser does not tie together the data, observations, and research with his/her conclusions. Typically, it would only require a couple/few additional sentences to walk the reader from Data Point A, Data Point B, and Data Point C to the appraiser's conclusions, resulting in an adequately supported valuation discussion.