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Course Description

Having knowledge of how to appraise two- to four-family and multi-family properties will allow appraisers to accept more assignments involving income-producing properties. *Appraisal of 2-4 Family & Multi-Family Properties* provides students with the necessary background information to appraise such properties.

This course identifies key elements of market analysis of two- to four-family and multi-family properties and distinguishes which features and characteristics are important to an appraiser's analysis. Students will also learn how to analyze income and expenses and how this analysis is used in an appraisal of an income-producing property. Appropriate income methodologies and how the appraisal approaches apply to income-producing properties are also discussed.

This course walks the student through the preparation of the Fannie Mae Reporting Form 1025/Freddie Mac Reporting Form 72, Small Residential Income Property Appraisal Report. It introduces students to the guidelines for each and how to compile the required data and correctly complete the analysis. In addition, the Fannie Mae Form 216/Freddie Mac Form 998, Operating Income Statement Form, is covered as this is a required exhibit that accompanies the 1025/72 report.
Unit 1: Physical and Legal Concepts

It would be a difficult and lengthy task to broadly name and define the various labels that might be pinned on small residential income properties. While some might simply refer to these properties as two-unit or two-family dwellings, others might refer to these properties as duplexes or doubles. A three-unit property might be tagged as a triplex, a four-unit as a four-plex or quad-plex, and the list could go on.

From an industry and appraiser licensing and certification standpoint, assignments involving two- to four-family properties are most often considered residential in nature. However, properties with more than four units are typically classified within the industry as commercial and may not fall within the scope of a residential appraiser’s credentials in many jurisdictions.

An appraisal assignment for a two- to four-family dwelling or a small multi-unit residential income property demands special competence, knowledge, and skill on the part of the appraiser that may not be at issue in more common single-family residential appraisal assignments.

Learning Objectives

After completing this unit, you will be able to:

- Explain how building codes and zoning categories vary in a two- to four-unit or multi-family property.
- Distinguish the types of leases typically used for two- to four-unit or multi-family properties.
- Recognize property rights for specific types of estates.

Key Terms

**Fee Simple Estate**  The greatest estate (ownership) one can have in real property; it is freely transferable and inheritable and of indefinite duration, with no conditions on the title.

**Gross Lease**  A property lease for which the landlord pays all expenses related to the operation of the property.

**Lease**  Conveyance of a leasehold estate from the fee owner to a tenant; a contract for which one party pays the other rent in exchange for possession of real estate.

**Leased Fee Estate**  The landlord’s ownership interest in property.

**Leasehold Estate**  An estate that gives the holder (tenant) a temporary right to possession without title.

**Lessee**  A person who leases property from another; a tenant.

**Lessor**  A person who leases property to another; a landlord.

**Partial Interest**  Any interest in real property that one may have other than the full bundle of rights.
Leases

- In a lease arrangement, the ____________________ is the landlord, while the ____________________ is the tenant.
- A ____________________ lease is an arrangement where the rent payments to the lessor are consistent throughout the duration of the lease term. This is the most ____________________ type of lease.
- A ____________________ lease is a lease with rental payments made at regular intervals, but payment amounts may change. This is sometimes known as an ____________________ lease.
- A ____________________ lease provides for the rent amount to change over time, usually a predetermined percentage at a predetermined interval. This type of lease may also be referred to as ____________________ lease.
- The ____________________ lease operates very similarly to a ____________________ lease with one major exception—rather than a percentage increase, the periodic increase specified in the lease is a specific dollar amount. This type of lease could be found with ____________________ type of property.
**Property Rights**

When appraising any income-producing property, it is important to be familiar with terms related to property rights:

- Fee simple estate
- Leased fee estate
- Leasehold estate

**Notes**
Unit 2: Income Concepts

Although the income approach may not be the only valuation method with relevance in the assignment, it is especially important in the appraisal of most two- to four-family or multi-unit properties. Given the scope of work in the assignment, the income approach will most always be a key analysis leading to the value conclusion. As well, the scope of work determined by the appraiser will assist with defining the particular income technique that will provide the most credible results. Therefore, it is imperative for appraisers to possess a good understanding of various concepts and principles for developing the income approach and to recognize the various elements that are a part of the methodology.

Learning Objectives

After completing this unit, you will be able to:

- Contrast the concepts of income versus rent.
- Identify the measures of income and benefits which will be used in the appraiser’s income analysis.
- Classify the different types of operating expenses.
- Recognize specific income factors and rates of return and their key elements.
- Distinguish the identifying characteristics of leasehold and leased fee interests.

Key Terms

Contract Rent  What tenants are actually paying in rent, as stated in the terms of the lease.

Debt Service  The amount of funds required to make periodic payments of principal and interest to the lender.

Deficit Rent  The resulting difference when the market rent exceeds the contract rent.

Effective Gross Income (EGI)  Potential gross income, less vacancy and collection losses.

Excess Rent  The resulting difference when the contract rent exceeds the market rent.

Fixed Expenses  Ongoing operating expenses that do not vary based on occupancy levels of the property (e.g., taxes, insurance).

Gross Income Multiplier (GIM)  A factor that takes into account income derived from all sources of a property (e.g., vending, storage units).

Gross Rent Multiplier (GRM)  A factor derived from comparable rental data, which is then used to develop an opinion of value of the subject property.

Leased Fee Interest  Defined by the amount of contract rent over and above market rent.
**Leasehold Interest**  Defined by the amount of rent that is less than market rent (amount of difference between contract rent and market rent).

**Market Rent**  What the property could rent for in the open market if currently vacant and available.

**Net Operating Income (NOI)**  Income after expenses.

**Operating Expenses**  Day-to-day costs of running a building, like repairs and maintenance, but not including debt service or depreciation.

**Overall Capitalization Rate**  Used to interpret a property’s single year net operating income to the property’s value using direct capitalization (symbolized by $R_o$).

**Overall Yield Rate**  Considers a series of annual figures over the entire investment period as well as reversion.

**Potential Gross Income (PGI)**  The income that could be produced by a property in an ideal situation, with no vacancy or collection losses.

**Reserves for Replacement**  An amount of money set aside for future replacement of major items (e.g., roof, heating system). Also called **Reserves**.

**Reversionary Benefit**  Typically a sum, often stated in a dollar amount, that a property owner will receive when or if he sells the property at the end of the investment term.

**Variable Expenses**  Operating expenses necessary to the property, but usually dependent on the property’s occupancy level.

**Types of Rent**

- ________________ rent is what the tenants are actually paying in rent, as stated in the terms of the lease. It is the actual rent that the lessor and the lessee of a particular property have agreed upon.

- ________________ rent (also referred to as **economic rent**) is what the property could rent for in the open market if currently vacant and available.

- When ________________ rent exceeds ________________ rent, the difference is known as **excess rent**. In this case, the lessor has the advantage, leaving the lessee at a disadvantage.
Measures of Income and Benefits

Appraisers have several mechanisms that are used as part of some or all income analyses to measure the efficiency of an investment, depending on the scope of work in the assignment. These concepts include:

- Potential Gross Income (PGI)
  
  *PGI is income produced in an ideal situation—no vacancy or collection losses. In most cases, PGI is based on an annual dollar amount.*

- Effective Gross Income (EGI)
  
  *EGI Formula: PGI – Vacancy and Collection Losses = EGI*

- Net Operating Income (NOI)
  
  *NOI Formula: PGI - Vacancy and Collection Losses = EGI – Operating Expenses = NOI*

- Reversionary Benefit
  
  *Reversionary benefit is typically a dollar amount that is received by the property owner upon selling the property at the end of the investment term.*

Operating Expenses

Operating expenses must be made by the property owner in order to adequately maintain a property at a level that it could continue to produce revenue.

- **Operating expenses** are the _________________ costs of running a building, like repairs and maintenance, but not including debt service or depreciation.

- **Debt service** is the amount of funds required to make _________________ payments of principal and interest to the _________________ (e.g., monthly mortgage payments).

Common Types of Operating Expenses

- Fixed Expenses

- Variable Expenses

- Reserves for Replacement
**Rent and Income Multipliers**

Rent and income multipliers are factors frequently used in the valuation of many residential income properties.

- A multiplier is not a ________________.
- A multiplier is identified as a factor derived by ________________ the sale price, or sometimes value, of a ________________ property by its gross income, or in some cases, rent.

*Multiplier Formula: \[ \text{Sale Price (or Value)} \div \text{Gross Income (or Rent)} = \text{Multiplier} \]*

**Types of Multipliers**

- Gross rent multiplier (GRM)

- Gross income multiplier (GIM)
  - Potential gross income multiplier (PGIM)
  - Effective gross income multiplier (EGIM)
**Overall Capitalization Rate**

Two components comprise the overall capitalization rate (signified by $R_O$—rate to overall): 

- Weighted average of the loan to value ratio (LTV) of the rate to mortgage ($M \times R_M$), and 
- Rate to the equity portion ($[1 - M] \times R_E$); thus:

  \[
  \text{Overall Capitalization Rate Formula: } M \times R_M + (1 - M) \times R_E = R_O
  \]

**Direct Capitalization Technique**

*IVR Formula: (Net Operating) Income ÷ Value = Rate (percentage)*
Leasehold and Leased Fee Interests

Examine the illustration below and fill in the missing information.

- When contract rent is ________________ than market rent, an advantage to the lessee occurs and creates a ________________ leasehold.
- When contract rent is ________________ than market rent, an advantage to the lessor occurs and creates a ________________ leasehold.
- The ________________ interest is defined by the amount of rent that is ________________ than market rent (amount of difference between contract and market rent).
- The ________________ interest is defined by the amount of contract rent that is ________________ than market rent.
**Positive Leasehold Example**

A property has a contract rent of $1,200 per month. The appraiser determines that the property should have a market rent of $1,350 per month. The appraiser selects a GRM of 110 to be appropriate in the assignment.

\[
\begin{align*}
$1,350 \times 110 &= 148,500 \\
$1,200 \times 110 &= 132,000 \\
148,500 - 132,000 &= 16,500
\end{align*}
\]

The value of the leasehold interest is $16,500, the amount of the advantage to the lessee, in dollars.

**Negative Leasehold Example**

A property has a contract rent of $1,500 per month. The appraiser determines that the property should have a market rent of $1,250 per month. The appraiser selects a GRM of 95 to be appropriate in the assignment.

\[
\begin{align*}
$1,250 \times 95 &= 118,750 \\
$1,500 \times 95 &= 142,500 \\
118,750 - 142,500 &= -23,750 \text{ (stated as a negative since a negative leasehold is created)}
\end{align*}
\]

The value of the leased fee interest is $23,750, the amount of the advantage to the lessor, in dollars.

**Notes**
Unit 3: Income and Expense Analysis

The level and extent of an appraiser’s analysis of income and expenses for the subject property and data obtained from the market is part of his scope of work decision. There are several techniques the appraiser can employ to analyze the income characteristics of the subject as well as to derive indications from the market.

Learning Objectives

After completing this unit, you will be able to:

- Recognize critical information related to the appraiser’s lease analysis.
- Recall recognized methods and techniques for estimating and applying market level rent as a component of the appraiser’s value analysis.
- Estimate, from analysis of market data, various losses and operating expenses associated with income-producing properties.
- Identify the method and use of expense and income ratios.

Key Terms

Collection Loss An amount stated as a percent or a dollar amount reflecting the risk anticipated for nonpayment of rent by tenants. Also called Credit Loss.

Estate For Years A leasehold estate that is specified as a defined period (e.g., year, month, week). Also called Term Tenancy.

Net Income Ratio (NIR) Expressed as a percentage; net operating income divided by effective gross income.

Operating Expense Ratio (OER) Expressed as a percentage; total operating expenses divided by effective gross income.

Periodic Tenancy A leasehold estate that continues for successive periods of equal length (e.g., month-to-month, week-to-week) until terminated by either party.

Reconstructed Operating Income Statement Prepared by the appraiser, a reconstructed operating income statement reflects anticipated net operating income.

Rent Roll Briefly details the unit information (e.g., lease terms, contract rent, the effective date of the leases that are in place for the property).

Rent Survey a compilation of the rents being generated, and often rent history, in a particular market for a particular property type.

Vacancy Rate A percentage rate for all units comprised of the total number of unrented days divided by the total number of rentable days in a year.
Identification of Premises – Sample Lease Clause

Subject to the terms and conditions in this Agreement, Landlord rents to Tenant, and Tenant rents from Landlord, for residential purposes only, the premises known as Apartment _____ located at ___________________________ (“the premises”), together with the following furnishings and appliances: Range, refrigerator, washer, and dryer.

Term of the Tenancy – Sample Lease Clauses

The term of the rental will begin on ______________ and continue on a month-to-month basis. Landlord may terminate the tenancy or modify the terms of this Agreement by giving the Tenant 30 days’ written notice. Tenant may terminate the tenancy by giving the Landlord 30 days’ written notice.

The tenancy under this Agreement shall commence on ______________ and continue for one year, until _______________. [This Agreement shall be automatically extended for successive periods of one (1) year following the initial term, unless either party notifies the other at least thirty (30) days in advance of the end of the then-current term in writing of its election to terminate this Agreement.]

Payment of Rent – Sample Lease Clause

Tenant will pay to Landlord a monthly rent of $__________, payable in advance on the first day of each month.

Utilities – Sample Lease Clause

Tenant will pay for gas, electric, telephone, cable television, and any internet provisions. The following utilities will be paid by Landlord: Water and sewer. The Tenant agrees to utilize said utility service reasonably and not to cause waste.
Other Services Provided by Landlord – Sample Lease Clause

The Landlord shall provide a refuse dumpster which shall be utilized by the Tenant for normal household waste disposal.

Rent Roll

Rent Surveys

Deriving a Vacancy Rate

Vacancy Rate Formula: Days Vacant ÷ (365 x Number of Units) = Vacancy Rate (percentage)

Deriving a Vacancy Loss

Vacancy Loss Formula: PGI x Vacancy Rate = Vacancy Loss
Replacement Reserves

Replacement Reserve Formula: Estimated Cost at Replacement ÷ Number of Years Remaining = Annual Replacement Reserve

Operating Expenses

Total Operating Expenses Formula: Total Fixed Expenses + Total Variable Expenses + Total Replacement Reserves = Total Operating Expenses

Reconstructed Operating Income Statement

Net Operating Income Formula: EGI – Total Operating Expenses = NOI

Operating Expense Ratio (OER)

Operating Expense Ratio Formula: Total Operating Expenses ÷ EGI = OER (percentage)

Net Income Ratio (NIR)

Net Income Ratio Formula: Net Operating Income ÷ EGI = NIR (percentage)
Unit 4: Application of the Approaches to Value

**Learning Objectives**

After completing this unit, you will be able to:

- Apply gross rent and income multipliers derived from market data as part of the appraiser's income analysis.
- Estimate and apply rates of capitalization using market derived data and band of investment techniques.
- Identify the most applicable indicators of value leading to the appraiser’s reconciliation and final value opinion.

**Key Terms**

**Arm's Length Transaction** A transaction that occurred under typical conditions in the marketplace, with each of the parties acting in their own best interests.

**Band of Investment** A technique for determining an overall capitalization rate by weighting and combining the various components of an investment.

**Direct Capitalization** An income method that converts a property’s single-year net operating income (NOI) into a value indication by applying an overall capitalization rate: NOI ÷ Overall Capitalization Rate = Value.

**Economics of Scale** - A variable often observed through multiple regression. Example: As the size increases, the unit cost decreases. Also called *Economies of Scale* or *Economy of Scale*.

**EGIM (Effective Gross Income Multiplier)** A factor derived and applied using EGI—the amount after estimated vacancy in collection loss has been deducted from PGI.

**Equity Capitalization Rate** The capitalization rate applied to the expectation of return on equity. (symbolized by $R_E$) Also referred to as an equity dividend rate.

**External Obsolescence** Something outside the boundaries of a property, either due to economics of the area or locational characteristics, that makes the improvement(s) less desirable.

**Functional Obsolescence** When an improvement is less desirable because of something inherent or lacking in the design.

**Mortgage Capitalization Rate** A return on the money lent in an investment (symbolized by $R_M$).

**Mortgage Constant** The ratio between annual debt service and loan principal.

**PGIM (Potential Gross Income Multiplier)** A factor derived from, and applied to, the total gross income generated by the property without vacancy or collection loss being considered.
Physical Deterioration  Decline in the condition of improvements due to normal wear due to age, the elements, abuse, or other forces.

Replacement Cost  Cost new of a functional equivalent (substitute) of the original improvement using modern materials and workmanship quality that is not necessarily an exact replica of the original.

Reproduction Cost  Cost new of constructing an exact duplicate (replica) of the original improvement, replicating the materials, workmanship, and design found in the improvements as well as any superadequacy, obsolescence, and deficiencies.

Unit of Comparison  A component with which a property can be divided for the purpose of comparison (e.g., square foot, living unit).

Income Approach

- Income capitalization can use either ____________________ or ____________________.
- Although there is no established standard or best practice, ________________ are most frequently used as an income technique for most two- to four-family properties while ________________ using an overall capitalization rate is more common to larger multifamily properties.
- The ________________ serves as the appraiser’s compass as to which technique is appropriate.

Deriving a GRM

To derive the appropriate multiplier from transaction data, use the VIM formula:

\[ V \text{ (Sale Price)} \div I \text{ (Gross Monthly Rent)} = M \text{ (Multiplier)} \]
**Applying a GRM**

Value Opinion Using GRM Technique:

\[
M \text{ (Multiplier)} \times I \text{ (Monthly Market Rent)} = V \text{ (Value)}
\]

**Deriving a GIM**

Deriving the GIM from market data is performed in much the same way as the GRM is derived using VIM:

\[
\text{Value} \div (\text{Annual Income}) = \text{Multiplier}
\]

**Deriving a PGIM**

PGIM is derived using VIM:

\[
\text{Sale Price (Value)} \div I \text{ (Market Rent + Other Income)} = \text{PGIM}
\]
Deriving an EGIM

The same process used in the deriving PGIM is used for identifying an EGIM (but with additional steps) when the flow of other income is dependent on the occupancy of the units:

**Step 1:** Determine annual income from rent:

\[ \text{Monthly Rental Income} \times 12 \text{ Months} = \text{Annual Rental Income} \]

**Step 2:** Determine annual income from other sources:

\[ \text{Other Monthly Income} \times 12 \text{ Months} = \text{Other Annual Income} \]

**Step 3:** Determine total PGI for the property:

\[ \text{Annual Rental Income} + \text{Other Annual Income} = \text{PGI} \]

**Step 4:** Determine loss due to vacancy by applying the market vacancy rate to PGI:

\[ \text{PGI} \times \text{Vacancy Rate} = \text{Vacancy Loss} \]

**Step 5:** Determine EGI by subtracting vacancy loss from PGI:

\[ \text{PGI} – \text{Vacancy Loss} = \text{EGI} \]

**Step 6:** Use VIM to derive the EGIM:

\[ \text{Transaction Price} ÷ \text{EGI} = \text{EGIM} \]

Direct Capitalization Using an Overall Rate

Use IRV Formula: \[ \text{NOI} ÷ \text{Overall Capitalization Rate} = \text{Value} \]

Using Market Data

Use IVR Formula: \[ \text{Income (NOI)} ÷ \text{Value (Sale Price)} = \text{Rate} \]
**Using the Band of Investment Technique**

- Mortgage Capitalization Rate ($R_M$)
- Equity Capitalization Rate ($R_E$)
- Overall Capitalization Rate ($R_O$)

**Deriving the Band of Investment Technique**

Deriving the band of investment technique comprises three steps:

**Step 1:** Calculate the Mortgage Component.

\[ \text{Mortgage Constant (} R_M \text{) \times \text{Percent of Mortgage (LTV or } M) = \text{Mortgage Component}} \]

**Step 2:** Calculate the Equity Component.

\[ \text{Equity Dividend (} R_E \text{) \times \text{Equity Investment (1-M) = Equity Component}} \]

**Step 3:** Calculate $R_O$. The overall capitalization rate, $R_O$, is comprised of the weighted average of two components, $R_M$ and $R_E$:

\[ ([M] \times R_M) + ([1-M]) \times R_E = R_O \]
Applying an Overall Capitalization Rate

Use IRV Formula: \( \text{(Net Operating) Income ÷ (Overall Capitalization) Rate} = \text{Value} \)

Cost Approach

The appraiser must take great care that indications produced by the cost approach in a market value assignment are truly reflective of market actions. This requires a thoughtful analysis of any:

- Physical deterioration

- Functional obsolescence

- External obsolescence

Types of Costs

- ____________________ cost reflects duplication of the improvements, including the materials, workmanship, and design found in the improvements.
- As such, any superadequacy, ____________________, and deficiencies will also be duplicated.
- In a market value assignment, this must be addressed by considering ____________________.
- ____________________ cost considers the reconstruction of the property new using modern materials, workmanship, design, and features.
- When ____________________ cost is used, (most all) functional obsolescence is eliminated.
Notes
Unit 5: Reporting

All of the appraiser’s diligence in development of an appraisal of a two- to four-family or multi-family property may lack relevance and meaning unless the appraisal is reported in a manner sufficient to describe the property, conditions related to the property, steps taken by the appraiser in the development process, and the logic and rationale leading to the appraiser’s final conclusions and value opinion.

The intended use and the intended user(s) in the assignment are the appraiser’s compass for determining the reporting avenue. In some cases, the appraiser may elect to provide a narrative appraisal report; in other assignments, the appraisal may be reported using a standardized industry form.

**Learning Objectives**

After completing this unit, you will be able to:

- Recognize Fannie Mae guidelines and integral obligations applying to the use of the Fannie Mae Form 1025/Freddie Mac Form 72 for small residential income properties.
- Prepare the Fannie Mae Form 1025/Freddie Mac Form 72 and develop effective commentary.
- Compile required data and correctly complete analysis necessary for completion of the Fannie Mae/Freddie Mac Operating Income Statement Form 216/998.
- Recall and calculate various mathematic formulas necessary for completing the Fannie Mae/Freddie Mac Operating Income Statement Form 216/998.

**Key Terms**

**Geodetic Survey** A survey of a large area of land in which corrections are made to account for the curvature of the earth.

**Government Survey System** A legal description for land, referencing principal meridians and base lines designated throughout the country. Also called **Rectangular Survey** or **Township System**.

**Gross Building Area (GBA)** Total area of a building measured from the exterior walls that include

**Gross Living Area (GLA)** Total area of finished heated (and in some markets, cooled) residential living unit space.

**Lot and Block** A type of legal description used for platted property. Description states only the property's lot and block number in a particular subdivision; to find out the exact location of property boundaries, the plat map for that subdivision must be consulted at the county recorder’s office.

**Market Rent** What the property could rent for in the open market if currently vacant and available.

**Metes and Bounds** A legal description that starts at an easily identifiable point of beginning (POB), then describes the property's boundaries in terms of courses (compass directions) and distances, ultimately returning to the POB.
**Fannie Mae Form 1025/Freddie Mac Form 72**

Fannie Mae Form 1025/Freddie Mac Form 72 is the most common reporting form for reporting the appraisal of a two- to four-family property for use by a lender client.

Most of Fannie Mae’s guidelines and requirements represent at least a minimum level of expectations by all lenders.

**General Use Provisions**

This report form is designed to report an appraisal of a two- to four-unit property, including a two- to four-unit property in a planned unit development (PUD). A two- to four-unit property located in either a condominium or cooperative project requires the appraiser to inspect the project and complete the project information section of the Individual Condominium Unit Appraisal Report or the Individual Cooperative Interest Appraisal Report and attach it as an addendum to this report.

This appraisal report is subject to the following scope of work, intended use, intended user, definition of market value, statement of assumptions and limiting conditions, and certifications. Modifications, additions, or deletions to the intended use, intended user, definition of market value, or assumptions and limiting conditions are not permitted. The appraiser may expand the scope of work to include any additional research or analysis necessary based on the complexity of this appraisal assignment. Modifications or deletions to the certifications are also not permitted. However, additional certifications that do not constitute material alterations to this appraisal report, such as those required by law or those related to the appraiser’s continuing education or membership in an appraisal organization, are permitted.

**Scope of Work**

**SCOPE OF WORK:** The scope of work for this appraisal is defined by the complexity of this appraisal assignment and the reporting requirements of this appraisal report form, including the following definition of market value, statement of assumptions and limiting conditions, and certifications. The appraiser must, at a minimum: (1) perform a complete visual inspection of the interior and exterior areas of the subject property, (2) inspect the neighborhood, (3) inspect each of the comparable sales from at least the street, (4) research, verify, and analyze data from reliable public and/or private sources, and (5) report his or her analysis, opinions, and conclusions in this appraisal report.

**Intended Use**

**INTENDED USE:** The intended use of this appraisal report is for the lender/client to evaluate the property that is the subject of this appraisal for a mortgage finance transaction.

**Intended User**

**INTENDED USER:** The intended user of this appraisal report is the lender/client.
**Definition of Market Value**

**DEFINITION OF MARKET VALUE:** The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus, implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby: (1) buyer and seller are typically motivated; (2) both parties are well informed or well advised, and each acting in what he or she considers his or her own best interest; (3) a reasonable time is allowed for exposure in the open market; (4) payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and (5) the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions* granted by anyone associated with the sale.

*Adjustments to the comparables must be made for special or creative financing or sales concessions. No adjustments are necessary for those costs which are normally paid by sellers as a result of tradition or law in a market area; these costs are readily identifiable since the seller pays these costs in virtually all sales transactions. Special or creative financing adjustments can be made to the comparable property by comparisons to financing terms offered by a third party institutional lender that is not already involved in the property or transaction. Any adjustment should not be calculated on a mechanical dollar for dollar cost of the financing or concession but the dollar amount of any adjustment should approximate the market's reaction to the financing or concessions based on the appraiser's judgment.

**Statement of Assumptions and Limiting Conditions**

**STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS:** The appraiser's certification in this report is subject to the following assumptions and limiting conditions:

1. The appraiser will not be responsible for matters of a legal nature that affect either the property being appraised or the title to it, except for information that he or she became aware of during the research involved in performing this appraisal. The appraiser assumes that the title is good and marketable and will not render any opinions about the title.

2. The appraiser has provided a sketch in this appraisal report to show the approximate dimensions of the improvements, including each of the units. The sketch is included only to assist the reader in visualizing the property and understanding the appraiser’s determination of its size.

3. The appraiser has examined the available flood maps that are provided by the Federal Emergency Management Agency (or other data sources) and has noted in this appraisal report whether any portion of the subject site is located in an identified Special Flood Hazard Area. Because the appraiser is not a surveyor, he or she makes no guarantees, express or implied, regarding this determination.

4. The appraiser will not give testimony or appear in court because he or she made an appraisal of the property in question, unless specific arrangements to do so have been made beforehand, or as otherwise required by law.

5. The appraiser has noted in this appraisal report any adverse conditions (such as needed repairs, deterioration, the presence of hazardous wastes, toxic substances, etc.) observed during the inspection of the subject property or that he or she became aware of during the research involved in performing this appraisal. Unless otherwise stated in this appraisal report, the appraiser has no knowledge of any hidden or unapparent physical deficiencies or adverse conditions of the property (such as, but not limited to, needed repairs, deterioration, the presence of hazardous wastes, toxic substances, adverse environmental conditions, etc.) that would make the property less valuable, and has assumed that there are no such conditions and makes no guarantees or warranties, express or implied. The appraiser will not be responsible for any such conditions that do exist or for any engineering or testing that might be required to discover whether such conditions exist. Because the appraiser is not an expert in the field of environmental hazards, this appraisal report must not be considered as an environmental assessment of the property.

6. The appraiser has based his or her appraisal report and valuation conclusion for an appraisal that is subject to satisfactory completion, repairs, or alterations on the assumption that the completion, repairs, or alterations of the subject property will be performed in a professional manner.
Appraiser's Certification

APPRAISER'S CERTIFICATION: The Appraiser certifies and agrees that:

1. I have, at a minimum, developed and reported this appraisal in accordance with the scope of work requirements stated in this appraisal report.

2. I performed a complete visual inspection of the interior and exterior areas of the subject property, including all units. I reported the condition of the improvements in factual, specific terms. I identified and reported the physical deficiencies that could affect the livability, soundness, or structural integrity of the property.

3. I performed this appraisal in accordance with the requirements of the Uniform Standards of Professional Appraisal Practice that were adopted and promulgated by the Appraisal Standards Board of The Appraisal Foundation and that were in place at the time this appraisal report was prepared.

4. I developed my opinion of the market value of the real property that is the subject of this report based on the sales comparison and income approaches to value. I have adequate market data to develop reliable sales comparison and income approaches to value for this appraisal assignment. I further certify that I considered the cost approach to value but did not develop it, unless otherwise indicated in this report.

5. I researched, verified, analyzed, and reported on any current agreement for sale for the subject property. Any offering for sale of the subject property in the twelve months prior to the effective date of this appraisal, and the prior sales of the subject property for a minimum of three years prior to the effective date of this appraisal, unless otherwise indicated in this report.

6. I researched, verified, analyzed, and reported on the prior sales of the comparable sales for a minimum of one year prior to the date of sale of the comparable sale, unless otherwise indicated in this report.

7. I selected and used comparable sales that are locationally, physically, and functionally the most similar to the subject property.

8. I have not used comparable sales that were the result of combining a land sale with the contract purchase price of a home that has been built or will be built on the land.

9. I have reported adjustments to the comparable sales that reflect the market reaction to the differences between the subject property and the comparable sales.

10. I verified, from a disinterested source, all information in this report that was provided by parties who have a financial interest in the sale or financing of the subject property.

11. I have knowledge and experience in appraising this type of property in this market area.

12. I am aware of, and have access to, the necessary and appropriate public and private data sources, such as multiple listing services, tax assessment records, public land records and other such data sources for the area in which the property is located.

13. I obtained the information, estimates, and opinions furnished by other parties and expressed in this appraisal report from reliable sources that I believe to be true and correct.

14. I have taken into consideration the factors that have an impact on value with respect to the subject neighborhood, subject property, and the proximity of the subject property to adverse influences in the development of my opinion of market value. I have noted in this appraisal report any adverse conditions (such as, but not limited to, needed repairs, deterioration, the presence of hazardous wastes, toxic substances, adverse environmental conditions, etc.) observed during the inspection of the subject property or that I became aware of during the research involved in performing this appraisal. I have considered these adverse conditions in my analysis of the property value, and have reported on the effect of the conditions on the value and marketability of the subject property.

15. I have not knowingly withheld any significant information from this appraisal report and, to the best of my knowledge, all statements and information in this appraisal report are true and correct.

16. I stated in this appraisal report my own personal, unbiased, and professional analysis, opinions, and conclusions, which are subject only to the assumptions and limiting conditions in this appraisal report.

17. I have no present or prospective interest in the property that is the subject of this report, and I have no present or prospective personal interest or bias with respect to the participants in the transaction. I did not base, either partially or completely, my analysis and/or opinion of market value in this appraisal report on the race, color, religion, sex, age, marital status, handicap, familial status, or national origin of either the prospective owners or occupants of the subject property or of the present owners or occupants of the properties in the vicinity of the subject property or on any other basis prohibited by law.

18. My employment and/or compensation for performing this appraisal or any future or anticipated appraisals was not conditioned on any agreement or understanding, written or otherwise, that I would report (or present analysis supporting) a predetermined specific value, a predetermined minimum value, a range or direction in value, a value that favors the cause of any party, or the attainment of a specific result or occurrence of a specific subsequent event (such as approval of a pending mortgage loan application).

19. I personally prepared all conclusions and opinions about the real estate that were set forth in this appraisal report. If I relied on significant real property appraisal assistance from any individual or individuals in the performance of this appraisal or the preparation of this appraisal report, I have named such individual(s) and disclosed the specific tasks performed in this appraisal report. I certify that any individual so named is qualified to perform the tasks. I have not authorized anyone to make a change to any item in this appraisal report, therefore, any change made to this appraisal is unauthorized and I will take no responsibility for it.

20. I identified the lender/foillent in this appraisal report who is the individual, organization, or agent for the organization that ordered and will receive this appraisal report.
21. The lender/client may disclose or distribute this appraisal report to: the borrower; another lender at the request of the borrower; the mortgagee or its successors and assigns; mortgage insurers; government sponsored enterprises; other secondary market participants; data collection or reporting services; professional appraisal organizations; any department, agency, or instrumentality of the United States, and any state, the District of Columbia, or other jurisdictions; without having to obtain the appraiser’s or supervisory appraiser’s (if applicable) consent. Such consent must be obtained before this appraisal report may be disclosed or distributed to any other party (including, but not limited to, the public through advertising, public relations, news, sales, or other media).

22. I am aware that any disclosure or distribution of this appraisal report by me or the lender/client may be subject to certain laws and regulations. Further, I am also subject to the provisions of the Uniform Standards of Professional Appraisal Practice that pertain to disclosure or distribution by me.

23. The borrower; another lender at the request of the borrower; the mortgagee or its successors and assigns; mortgage insurers, government sponsored enterprises, and other secondary market participants may rely on this appraisal report as part of any mortgage finance transaction that involves any one or more of these parties.

24. If this appraisal report was transmitted as an “electronic record” containing my “electronic signature,” as those terms are defined in applicable federal and/or state laws (excluding audio and video recordings), or a facsimile transmission of this appraisal report containing a copy or representation of my signature, the appraisal report shall be as effective, enforceable and valid as if a paper version of this appraisal report were delivered containing my original hand written signature.

25. Any intentional or negligent misrepresentation(s) contained in this appraisal report may result in civil liability and/or criminal penalties (including, but not limited to, fine or imprisonment or both under the provisions of Title 18, United States Code, Section 1001, et seq., or similar state laws.

**Subject Section**

The purpose of this summary appraisal report is to provide the lender/client with an accurate, and adequately supported, opinion of the market value of the subject property.

<table>
<thead>
<tr>
<th>Property Address</th>
<th>City</th>
<th>State</th>
<th>Zip Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Borrower</td>
<td>Owner of Public Record</td>
<td>County</td>
<td></td>
</tr>
</tbody>
</table>

**Legal Description**

<table>
<thead>
<tr>
<th>Assessor's Parcel #</th>
<th>Tax Year</th>
<th>R.E. Taxes</th>
</tr>
</thead>
</table>

**Neighborhood Name**

<table>
<thead>
<tr>
<th>Occupant</th>
<th>Owner</th>
<th>Tenant</th>
<th>Vacant</th>
<th>Property Rights Appraised</th>
<th>Fee Simple</th>
<th>Leasehold</th>
<th>Other (describe)</th>
<th>Special Assessments</th>
<th>PUD</th>
<th>HOA</th>
<th>per year</th>
<th>per month</th>
</tr>
</thead>
</table>

**Assignment Type**

<table>
<thead>
<tr>
<th>Purchase Transaction</th>
<th>Refinance Transaction</th>
<th>Other (describe)</th>
</tr>
</thead>
</table>

**Lender/Client**

Is the subject property currently offered for sale or has it been offered for sale in the twelve months prior to the effective date of this appraisal? ☐ Yes ☐ No

Report data source(s) used, offering price(s), and date(s).

**Contract Section**

☐ did ☐ did not analyze the contract for sale for the subject purchase transaction. Explain the results of the analysis of the contract for sale or why the analysis was not performed.

<table>
<thead>
<tr>
<th>Contract Price</th>
<th>Date of Contract</th>
<th>Is the property seller the owner of public record? ☐ Yes ☐ No</th>
<th>Data Source(s)</th>
</tr>
</thead>
</table>

Is there any financial assistance (loan charges, seller concessions, gift or down payment assistance, etc.) to be paid by any party on behalf of the borrower? ☐ Yes ☐ No

If yes, report the total dollar amount and describe the items to be paid.
### Neighborhood Section

**Note:** Race and the racial composition of the neighborhood are not appraisal factors.

<table>
<thead>
<tr>
<th>Neighborhood Characteristics</th>
<th>2-4 Unit Housing Trends</th>
<th>2-4 Unit Housing</th>
<th>Present Land Use %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Location</td>
<td>2-4 Unit Housing</td>
<td></td>
<td>2-4 Unit Housing</td>
</tr>
<tr>
<td>Urban</td>
<td>Stable</td>
<td>PRICE</td>
<td>One-Unit</td>
</tr>
<tr>
<td>Suburban</td>
<td>Declining</td>
<td>AGE</td>
<td>%</td>
</tr>
<tr>
<td>Rural</td>
<td>Increasing</td>
<td>$ (000)</td>
<td>2-4 Unit</td>
</tr>
<tr>
<td>Built-Up</td>
<td>Over 75%</td>
<td>(yes)</td>
<td>%</td>
</tr>
<tr>
<td>Over 75%</td>
<td>Under 25%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>25-75%</td>
<td>Over 25%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Demand/Supply</td>
<td>Shortage</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shortage</td>
<td>In-Balance</td>
<td>Marketing Time</td>
<td></td>
</tr>
<tr>
<td>In-Balance</td>
<td>Over Supply</td>
<td>Under 3 mths</td>
<td></td>
</tr>
<tr>
<td>Over Supply</td>
<td>Over 3 mths</td>
<td>3-6 mths</td>
<td></td>
</tr>
<tr>
<td>Over 3 mths</td>
<td>6+ mths</td>
<td>Marketing Time</td>
<td></td>
</tr>
<tr>
<td>Growth</td>
<td>Stable</td>
<td>Low</td>
<td></td>
</tr>
<tr>
<td>Stable</td>
<td>Fast</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Slow</td>
<td>Fast</td>
<td>Commercial</td>
<td></td>
</tr>
<tr>
<td>Neighborhood Boundaries</td>
<td>Pred.</td>
<td>Other</td>
<td></td>
</tr>
</tbody>
</table>

**Market Conditions (including support for the above conclusions)**

### Site Section

<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Area</th>
<th>Shape</th>
<th>View</th>
</tr>
</thead>
<tbody>
<tr>
<td>Specific Zoning Classification</td>
<td>Zoning Description</td>
<td>Zoning Description</td>
<td>Zoning Description</td>
</tr>
<tr>
<td>Zoning Compliance</td>
<td>Legal</td>
<td>Legal</td>
<td>Legal</td>
</tr>
<tr>
<td>Is the highest and best use of the subject property as improved (or as proposed per plans and specifications) the present use?</td>
<td>Yes</td>
<td>No</td>
<td>If No, describe</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Utilities</th>
<th>Public</th>
<th>Other (describe)</th>
<th>Public</th>
<th>Other (describe)</th>
<th>Off-site Improvements—Type</th>
<th>Public</th>
<th>Private</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>Yes</td>
<td>No</td>
<td>FEMA Special Flood Hazard Area</td>
<td>Yes</td>
<td>No</td>
<td>FEMA Map #</td>
<td>FEMA Map Data</td>
</tr>
<tr>
<td>Gas</td>
<td>Yes</td>
<td>No</td>
<td>FEMA Flood Zone</td>
<td>Yes</td>
<td>No</td>
<td>If No, describe</td>
<td></td>
</tr>
<tr>
<td>Are the utilities and off-site improvements typical for the market area?</td>
<td>Yes</td>
<td>No</td>
<td>If No, describe</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Are there any adverse site conditions or external factors (easements, encroachments, environmental conditions, land use, etc.)?</td>
<td>Yes</td>
<td>No</td>
<td>If No, describe</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Appraisal of 2-4 Family and Multi-Family Properties - Student Workbook  Page 33 of 44
### Improvements Section

<table>
<thead>
<tr>
<th>General Description</th>
<th>Foundation</th>
<th>Exterior Description</th>
<th>Interior</th>
<th>Material/Finish</th>
</tr>
</thead>
<tbody>
<tr>
<td>Units</td>
<td>Two</td>
<td>Three</td>
<td>Four</td>
<td>Concrete Slab</td>
</tr>
<tr>
<td>Accessory Unit</td>
<td>Describe Below</td>
<td>Full Basement</td>
<td>Partial Basement</td>
<td>Exterior Walls</td>
</tr>
<tr>
<td># of Stories</td>
<td># of Bricks</td>
<td>Basement Area</td>
<td>%</td>
<td></td>
</tr>
<tr>
<td>Type</td>
<td>Det.</td>
<td>Att.</td>
<td>3-4 Det./End Unit</td>
<td></td>
</tr>
<tr>
<td>Existing</td>
<td>Propose</td>
<td>Under Const.</td>
<td>Outside Entry/Exit</td>
<td>Sump Pump</td>
</tr>
<tr>
<td>Design (Style)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year Built</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Effective Age (Yr)

<table>
<thead>
<tr>
<th>Heating/Cooling</th>
<th>Amenities</th>
<th>Car Storage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attic</td>
<td>None</td>
<td>Driveaway</td>
</tr>
<tr>
<td>Drop Stair</td>
<td>Stairs</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>Fuel</td>
<td></td>
</tr>
<tr>
<td>Patio/Deck</td>
<td>Fence</td>
<td></td>
</tr>
<tr>
<td>Garage</td>
<td># of Cars</td>
<td></td>
</tr>
<tr>
<td>Porch</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carport</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Refrigerator/Range/Oven/Disposal/Microwave/Washer/Dryer

<table>
<thead>
<tr>
<th>Refrigerator</th>
<th>Range/Oven</th>
<th>Dishwasher</th>
<th>Disposal</th>
<th>Microwave</th>
<th>Washer/Dryer</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unit # 1 contains: Rooms</td>
<td>Bedroom(s)</td>
<td>Bath(s)</td>
<td>Square foot of Gross Living Area</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unit # 2 contains: Rooms</td>
<td>Bedroom(s)</td>
<td>Bath(s)</td>
<td>Square foot of Gross Living Area</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unit # 3 contains: Rooms</td>
<td>Bedroom(s)</td>
<td>Bath(s)</td>
<td>Square foot of Gross Living Area</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unit # 4 contains: Rooms</td>
<td>Bedroom(s)</td>
<td>Bath(s)</td>
<td>Square foot of Gross Living Area</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Additional Features (special energy efficient items, etc.)

Describe the condition of the property (including needed repairs, deterioration, renovations, remodeling, etc.)

### Are there any physical deficiencies or adverse conditions that affect the livability, soundness, or structural integrity of the property? | Yes | No | If Yes, describe |

### Does the property generally conform to the neighborhood (functional utility, style, condition, use, construction, etc)? | Yes | No | If No, describe |

### Is the property subject to rent control? | Yes | No | If Yes, describe |
## Comparable Rental Data Section

The following properties represent the most current, similar, and proximate comparable rental properties to the subject property. This analysis is intended to support the opinion of the market rent for the subject property.

<table>
<thead>
<tr>
<th>FEATURE</th>
<th>SUBJECT</th>
<th>COMPARABLE RENTAL #1</th>
<th>COMPARABLE RENTAL #2</th>
<th>COMPARABLE RENTAL #3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Address</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proximity to Subject</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Monthly Rent</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Rent Control</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Date Source(s)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Location</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actual Age</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Condition</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Building Area</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unit Breakdown</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Utilities Included

Analysis of rental data and support for estimated market rents for the individual subject units reported below (including the adequacy of the comparables, rental concessions, etc.)
Subject Rent Schedule Section

<table>
<thead>
<tr>
<th>Unit #</th>
<th>Begin Date</th>
<th>End Date</th>
<th>Unfurnished Rent</th>
<th>Furnished Rent</th>
<th>Total Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>4</td>
<td></td>
<td></td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>

Comment on lease data

Utilities included in estimated rents: ☐ Electric ☐ Water ☐ Sewer ☐ Gas ☐ Oil ☐ Cable ☐ Trash collection ☐ Other (describe)

Prior Sale History Section

<table>
<thead>
<tr>
<th>ITEM</th>
<th>SUBJECT</th>
<th>COMPARABLE SALE #1</th>
<th>COMPARABLE SALE #2</th>
<th>COMPARABLE SALE #3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date of Prior Sale/Transfer</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price of Prior Sale/Transfer</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Data Source(s)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Effective Date of Data Source(s)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Analysis of prior sale history for the subject property</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**Sales Comparison Approach Section**

<table>
<thead>
<tr>
<th>FEATURE</th>
<th>SUBJECT</th>
<th>COMPARABLE SALE #1</th>
<th>COMPARABLE SALE #2</th>
<th>COMPARABLE SALE #3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Address</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proximity to Subject</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale Price</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Sale Price/Gross Bldg. Area</td>
<td>$ sq. ft.</td>
<td>$ sq. ft.</td>
<td>$ sq. ft.</td>
<td>$ sq. ft.</td>
</tr>
<tr>
<td>Gross Monthly Rent</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Gross Rent Multiplier</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Price Per Unit</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Price Per Room</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Price Per Bedroom</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Rent Control</td>
<td>☐ Yes ☐ No</td>
<td>☐ Yes ☐ No</td>
<td>☐ Yes ☐ No</td>
<td>☐ Yes ☐ No</td>
</tr>
<tr>
<td>Data Source(s)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**VALUE ADJUSTMENTS**

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>DESCRIPTION</th>
<th>DESCRIPTION</th>
<th>DESCRIPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale or Financing Concessions</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>Date of Sale/Time</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Location</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leasehold/Fee Simple</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Site</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>View</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Design (Style)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quality of Construction</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actual Age</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Condition</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Building Area</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unit Breakdown</td>
<td>Total</td>
<td>Bedrooms</td>
<td>Baths</td>
</tr>
<tr>
<td>Unit #1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unit #2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unit #3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unit #4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basement Description</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basement Finished Rooms</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Functional Utility</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Heating/Cooling</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Energy Efficient Home</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parking On/Off Site</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Porch/Patio/Deck</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Net Adjustment (Total)**

<table>
<thead>
<tr>
<th>Adjusted Sale Price of Comparison</th>
<th>Net Adj. %</th>
<th>$</th>
<th>Net Adj. %</th>
<th>$</th>
<th>Net Adj. %</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjust. Price Per Unit (Adj. Comp Unit)</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjust. Price Per Room (Adj. Comp Room)</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjust. Price Per Bedrm (Adj. Comp Bedrm)</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value Per Unit</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Value Per Rm.</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**GBA**

| Value Per GBA | $ | X | $ |
| GBA | = | $ |

**Summary of Sales Comparison Approach including reconciliation of the above indicators of value.**

Indicated Value by Sales Comparison Approach: $
**Income Approach Section**

<table>
<thead>
<tr>
<th>Total gross monthly rent</th>
<th>Gross rent multiplier (GPM)</th>
<th>= $</th>
<th>Indicated value by the Income Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Comments on income approach including reconciliation of the GPM</td>
</tr>
</tbody>
</table>

**Cost Approach Section**

<table>
<thead>
<tr>
<th>ESTIMATED [ ] REPRODUCTION OR [ ] REPLACEMENT COST NEW</th>
<th>OPINION OF SITE VALUE</th>
<th>= $</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sources of cost data</td>
<td>Dwelling Sq. Ft. @ $</td>
<td>= $</td>
</tr>
<tr>
<td>Quality rating from actual service</td>
<td>Effective date of cost data Sq. Ft. @ $</td>
<td>= $</td>
</tr>
<tr>
<td>Comments on Cost Approach (gross building area calculations, depreciation, etc.)</td>
<td>Garage/Carport Sq. Ft. @ $</td>
<td>= $</td>
</tr>
<tr>
<td></td>
<td>Total Estimate of Cost-New</td>
<td>= $</td>
</tr>
<tr>
<td></td>
<td>Loss Physical Functional External Depreciation</td>
<td>= $( )</td>
</tr>
<tr>
<td></td>
<td>Depreciated Cost of Improvements</td>
<td>= $</td>
</tr>
<tr>
<td></td>
<td>&quot;As-Is&quot; Value of Site Improvements</td>
<td>= $</td>
</tr>
<tr>
<td>Estimated Remaining Economic Life (HUD and VA only)</td>
<td>Years</td>
<td>Indicated Value by Cost Approach</td>
</tr>
</tbody>
</table>

**Reconciliation Section**

<table>
<thead>
<tr>
<th>Indicated Value by:</th>
<th>Sales Comparison Approach $</th>
<th>Income Approach $</th>
<th>Cost Approach (if developed) $</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

This appraisal is made □ "as is", □ subject to completion per plans and specifications on the basis of a hypothetical condition that the improvements have been completed, □ subject to the following repairs or alterations on the basis of a hypothetical condition that the repairs or alterations have been completed, or □ subject to the following required inspection based on the extraordinary assumption that the condition or deficiency does not require alteration or repair.

Based on a complete visual inspection of the interior and exterior areas of the subject property, defined scope of work, statement of assumptions and limiting conditions, and appraiser's certification, my (our) opinion of the market value, as defined, of the real property that is the subject of this report is $ , as of , which is the date of inspection and the effective date of this appraisal.
PUD Information Section

The 216/998 Operating Statement Form is a required exhibit to accompany the 1025/72 Small Residential Income Property Appraisal Report for a two- to four-unit income property.

General Instructions and Rent Summary

<table>
<thead>
<tr>
<th>Property Address</th>
</tr>
</thead>
<tbody>
<tr>
<td>Street</td>
</tr>
<tr>
<td>General Instructions: This form is to be prepared jointly by the loan applicant, the appraiser, and the lender's underwriter. The applicant must complete the following schedule indicating each unit's rental status, lease expiration date, current rent, market rent, and the responsibility for utility expenses. Rental figures must be based on the rent for an “unfurnished” unit.</td>
</tr>
<tr>
<td>Currently Rent</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>Unit No. 1 Yes No</td>
</tr>
<tr>
<td>Unit No. 2 Yes No</td>
</tr>
<tr>
<td>Unit No. 3 Yes No</td>
</tr>
<tr>
<td>Unit No. 4 Yes No</td>
</tr>
<tr>
<td>Total</td>
</tr>
<tr>
<td>Trash Removal ....</td>
</tr>
</tbody>
</table>

The applicant should complete all of the income and expense projections and for existing properties provide actual year-end operating statements for the past two years (for new properties the applicant’s projected income and expenses must be provided). This Operating Income Statement and any previous operating statements the applicant provides must then be sent to the appraiser for review, comment, and/or adjustments next to the applicant’s figures (e.g., Appraiser/Appraiser 288/300). If the appraiser is retained to complete the form instead of the applicant, the lender must provide to the appraiser the aforementioned operating statements, mortgage insurance premium, HOA dues, leasehold payments, subordinate financing, and/or any other relevant information as to the income and expenses of the subject property received from the applicant to substantiate the projections. The underwriter should carefully review the applicant's/appraiser's projections and the appraiser's comments concerning those projections. The underwriter should make any final adjustments that are necessary to more accurately reflect any income or expense items that appear unreasonable for the market. (Real estate taxes and insurance on these types of properties are included in PITI and not calculated as an annual expense item.) Income should be based on current rents, but should not exceed market rents. When there are no current rents because the property is proposed, new, or currently vacant, market rents should be used.
## Annual Income and Expense Projection for Next 12 Months

<table>
<thead>
<tr>
<th>Income (Do not include income for owner-occupied units)</th>
<th>By Applicant/Appraiser</th>
<th>Adjustments by Lender’s Underwriter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Annual Rental (from units to be rented) ...........</td>
<td>$ _____________________</td>
<td>$ _____________________</td>
</tr>
<tr>
<td>Other Income (include sources) ................................</td>
<td>$ _____________________ +</td>
<td>$ _____________________ +</td>
</tr>
<tr>
<td>Total ....................................................................</td>
<td>$ _____________________</td>
<td>$ _____________________</td>
</tr>
<tr>
<td>Less Vacancy/Hent Loss ........................................</td>
<td>$ _____________________ ( %)</td>
<td>$ _____________________ ( %)</td>
</tr>
<tr>
<td>Effective Gross Income .........................................</td>
<td>$ _____________________</td>
<td>$ _____________________</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses (Do not include expenses for owner-occupied units)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity ..................................................................</td>
<td>________________________</td>
</tr>
<tr>
<td>Gas ............................................................................</td>
<td>________________________</td>
</tr>
<tr>
<td>Fuel Oil .......................................................................</td>
<td>________________________</td>
</tr>
<tr>
<td>(Type - ____________________) ........................................</td>
<td>________________________</td>
</tr>
<tr>
<td>Water/Sewer ..................................................................</td>
<td>________________________</td>
</tr>
<tr>
<td>Trash Removal ................................................................</td>
<td>________________________</td>
</tr>
<tr>
<td>Pest Control ...................................................................</td>
<td>________________________</td>
</tr>
<tr>
<td>Other Taxes or Licenses .............................................</td>
<td>________________________</td>
</tr>
<tr>
<td>Casual Labor ..................................................................</td>
<td>________________________</td>
</tr>
<tr>
<td>This includes the costs for public area cleaning, snow removal, etc., even though the applicant may not elect to contract for such services.</td>
<td></td>
</tr>
<tr>
<td>Interior Paint/Decorating .........................................</td>
<td>________________________</td>
</tr>
<tr>
<td>This includes the costs of contract labor and materials that are required to maintain the interiors of the living units.</td>
<td></td>
</tr>
<tr>
<td>General Repairs/Maintenance ......................................</td>
<td>________________________</td>
</tr>
<tr>
<td>This includes the costs of contract labor and materials that are required to maintain the public corridors, stairways, roofs, mechanical systems, grounds, etc.</td>
<td></td>
</tr>
<tr>
<td>Management Expenses ..................................................</td>
<td>________________________</td>
</tr>
<tr>
<td>These are the customary expenses that a professional management company would charge to manage the property.</td>
<td></td>
</tr>
<tr>
<td>Supplies ........................................................................</td>
<td>________________________</td>
</tr>
<tr>
<td>This includes the costs of items like light bulbs, janitorial supplies, etc.</td>
<td></td>
</tr>
<tr>
<td>Total Replacement Reserves - See Schedule on Pg. 2 ............</td>
<td>________________________</td>
</tr>
<tr>
<td>Miscellaneous ..................................................................</td>
<td>________________________</td>
</tr>
<tr>
<td>..................................................................................</td>
<td>________________________</td>
</tr>
<tr>
<td>..................................................................................</td>
<td>________________________</td>
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<tr>
<td>..................................................................................</td>
<td>________________________</td>
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<td>..................................................................................</td>
<td>________________________</td>
</tr>
<tr>
<td>..................................................................................</td>
<td>________________________</td>
</tr>
<tr>
<td>..................................................................................</td>
<td>________________________</td>
</tr>
<tr>
<td>Total Operating Expenses .............................................</td>
<td>$ _____________________</td>
</tr>
</tbody>
</table>
### Replacement Reserve Schedule

Adequate replacement reserves must be calculated regardless of whether actual reserves are provided for on the owner’s operating statements or are customary in the local market. This represents the total average yearly reserves. Generally, all equipment and components that have a remaining life of more than one year—such as refrigerators, stoves, clothes washers/dryers, trash compactors, furnaces, roofs, and carpeting, etc.—should be expensed on a replacement cost basis.

<table>
<thead>
<tr>
<th>Equipment</th>
<th>Replacement Cost</th>
<th>Remaining Life</th>
<th>By Applicant/Appraiser</th>
<th>Lender Adjustments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stoves/Ranges ...... @ $</td>
<td>ea. × <em>Yrs. x</em></td>
<td>Units =$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Refrigerators ........... @ $</td>
<td>ea. × <em>Yrs. x</em></td>
<td>Units =$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dishwashers ........... @ $</td>
<td>ea. × <em>Yrs. x</em></td>
<td>Units =$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A/C Units .................. @ $</td>
<td>ea. × <em>Yrs. x</em></td>
<td>Units =$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C. Washers/Dryers .......... @ $</td>
<td>ea. × <em>Yrs. x</em></td>
<td>Units =$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>HW Heaters ............ @ $</td>
<td>ea. × <em>Yrs. x</em></td>
<td>Units =$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furnace(s) ............. @ $</td>
<td>ea. × <em>Yrs. x</em></td>
<td>Units =$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Other) .................... @ $</td>
<td>ea. × <em>Yrs. x</em></td>
<td>Units =$</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Roof.................. @ $ ea. × _Yrs. x One Bldg. =$

Carpeting (Wall to Wall) Remaining Life

<table>
<thead>
<tr>
<th>(Units)</th>
<th>Total Sq. Yds. @ $</th>
<th>Per Sq. Yd. × _Yrs. =</th>
<th>Total Replacement Reserves. (Enter on Pg. 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Public Areas)</td>
<td>Total Sq. Yds. @ $</td>
<td>Per Sq. Yd. × _Yrs. =</td>
<td>$</td>
</tr>
</tbody>
</table>

### Operating Income Reconciliation

\[
\text{Effective Gross Income} - \text{Total Operating Expenses} = \text{Operating Income} \div 12 = \text{Monthly Operating Income} \\
\text{Monthly Operating Income} - \text{Monthly Housing Expense} = \text{Net Cash Flow}
\]

(Note: Monthly Housing Expense includes principal and interest on the mortgage, hazard insurance premiums, real estate taxes, mortgage insurance premiums, HOA dues, leasehold payments, and subordinate financing payments.)

### Notes
Glossary

Arm’s Length Transaction  A transaction that occurred under typical conditions in the marketplace, with each of the parties acting in their own best interests.

Band of Investment  A technique for determining an overall capitalization rate by weighting and combining the various components of an investment.

Collection Loss  An amount stated as a percent or a dollar amount reflecting the risk anticipated for nonpayment of rent by tenants. Also called Credit Loss.

Contract Rent  What tenants are actually paying in rent, as stated in the terms of the lease.

Debt Service  The amount of funds required to make periodic payments of principal and interest to the lender.

Deficit Rent  The resulting difference when the market rent exceeds the contract rent.

Direct Capitalization  An income method that converts a property’s single-year net operating income (NOI) into a value indication by applying an overall capitalization rate: NOI ÷ Overall Capitalization Rate = Value.

Economics of Scale - A variable often observed through multiple regression. Example: As the size increases, the unit cost decreases. Also called Economics of Scale or Economy of Scale.

Effective Gross Income (EGI)  Potential gross income, less vacancy and collection losses.

EGIM (Effective Gross Income Multiplier)  A factor derived and applied using EGI—the amount after estimated vacancy in collection loss has been deducted from PGI.

Equity Capitalization Rate  The capitalization rate applied to the expectation of return on equity. (symbolized by $R_E$) Also referred to as an equity dividend rate.

Estate For Years  A leasehold estate that is specified as a defined period (e.g., year, month, week). Also called Term Tenancy.

Excess Rent  The resulting difference when the contract rent exceeds the market rent.

External Obsolescence  Something outside the boundaries of a property, either due to economics of the area or locational characteristics, that makes the improvement(s) less desirable.

Fee Simple Estate  The greatest estate (ownership) one can have in real property; it is freely transferable and inheritable and of indefinite duration, with no conditions on the title.

Fixed Expenses  Ongoing operating expenses that do not vary based on occupancy levels of the property (e.g., taxes, insurance).

Functional Obsolescence  When an improvement is less desirable because of something inherent or lacking in the design.

Geodetic Survey  A survey of a large area of land in which corrections are made to account for the curvature of the earth.
**Government Survey System**  A legal description for land, referencing principal meridians and base lines designated throughout the country. Also called **Rectangular Survey** or **Township System**.

**Gross Building Area (GBA)**  Total area of a building measured from the exterior walls that include common areas (e.g., hallways, entryways, common laundry rooms).

**Gross Income Multiplier (GIM)**  A factor that takes into account income derived from all sources of a property (e.g., vending, storage units).

**Gross Lease**  A property lease for which the landlord pays all expenses related to the operation of the property.

**Gross Living Area (GLA)**  Total area of finished heated (and in some markets, cooled) residential living unit space.

**Gross Rent Multiplier (GRM)**  A factor derived from comparable rental data, which is then used to develop an opinion of value of the subject property.

**Lease**  Conveyance of a leasehold estate from the fee owner to a tenant; a contract for which one party pays the other rent in exchange for possession of real estate.

**Leased Fee Estate**  The landlord’s ownership interest in property.

**Leased Fee Interest**  Defined by the amount of contract rent over and above market rent.

**Leasehold Estate**  An estate that gives the holder (tenant) a temporary right to possession without title.

**Leasehold Interest**  Defined by the amount of rent that is less than market rent (amount of difference between contract rent and market rent).

**Lessee**  A person who leases property from another; a tenant.

**Lessor**  A person who leases property to another; a landlord.

**Lot and Block**  A type of legal description used for platted property. Description states only the property’s lot and block number in a particular subdivision; to find out the exact location of property boundaries, the plat map for that subdivision must be consulted at the county recorder’s office.

**Market Rent**  What the property could rent for in the open market if currently vacant and available.

**Metes and Bounds**  A legal description that starts at an easily identifiable point of beginning (POB), then describes the property’s boundaries in terms of courses (compass directions) and distances, ultimately returning to the POB.

**Mortgage Capitalization Rate**  A return on the money lent in an investment (symbolized by $R_m$).

**Mortgage Constant**  The ratio between annual debt service and loan principal.

**Net Income Ratio (NIR)**  Expressed as a percentage; net operating income divided by effective gross income.

**Net Operating Income (NOI)**  Income after expenses.

**Operating Expense Ratio (OER)**  Expressed as a percentage; total operating expenses divided by effective gross income.
**Operating Expenses**  Day-to-day costs of running a building, like repairs and maintenance, but not including debt service or depreciation.

**Overall Capitalization Rate**  Used to interpret a property’s single year net operating income to the property’s value using direct capitalization (symbolized by $R_O$).

**Overall Yield Rate**  Considers a series of annual figures over the entire investment period as well as reversion.

**Partial Interest**  Any interest in real property that one may have other than the full bundle of rights.

**Periodic Tenancy**  A leasehold estate that continues for successive periods of equal length (e.g., month-to-month, week-to-week) until terminated by either party.

**PGIM (Potential Gross Income Multiplier)**  A factor derived from, and applied to, the total gross income generated by the property without vacancy or collection loss being considered.

**Physical Deterioration**  Decline in the condition of improvements due to normal wear due to age, the elements, abuse, or other forces.

**Potential Gross Income (PGI)**  The income that could be produced by a property in an ideal situation, with no vacancy or collection losses.

**Reconstructed Operating Income Statement**  Prepared by the appraiser, a reconstructed operating income statement reflects anticipated net operating income.

**Rent Roll**  Briefly details the unit information (e.g., lease terms, contract rent, the effective date of the leases that are in place for the property).

**Rent Survey**  A compilation of the rents being generated (and often rent history) in a particular market for a particular property type.

**Replacement Cost**  Cost new of a functional equivalent (substitute) of the original improvement using modern materials and workmanship quality that is not necessarily an exact replica of the original.

**Reproduction Cost**  Cost new of constructing an exact duplicate (replica) of the original improvement, replicating the materials, workmanship, and design found in the improvements as well as any superadequacy, obsolescence, and deficiencies.

**Reserves for Replacement**  An amount of money set aside for future replacement of major items (e.g., roof, heating system). Also called **Reserves**.

**Reversionary Benefit**  Typically a sum, often stated in a dollar amount, that a property owner will receive when or if he sells the property at the end of the investment term.

**Unit of Comparison**  A component with which a property can be divided for the purpose of comparison (e.g., square foot, living unit).

**Vacancy Rate**  A percentage rate for all units comprised of the total number of unrented days divided by the total number of rentable days in a year.

**Variable Expenses**  Operating expenses necessary to the property, but usually dependent on the property’s occupancy level.