

# The “Five Acre” Appraisal

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One question that seems to come up in many, if not most, USPAP classes deals with the scenario where an appraiser is asked to “appraise the house on no more than 5 acres.” This assignment presents an issue that is a concern to many residential appraisers. Although this is not a requirement of either Fannie Mae or Freddie Mac, many lender clients will order appraisals subject to this condition. This assignment is not nearly as simple as it may seem to the lender. On the other hand, in most cases it can be done within the framework of USPAP.

## The Problem

There may be instances where accepting the assignment as presented is not appropriate. For example, an assignment where the subject property has 10 acres and the minimum new lot size in the subject’s zoning district is 10 acres may be such a case. If the appraiser properly explains this to the lender/client, they will typically agree that it makes no sense to use a hypothetical condition that is not allowed under the jurisdiction’s zoning ordinance. However, in cases where 5-acre lots are allowed by zoning, a hypothetical condition can often, but not always, be used.

## Relevant Issues

USPAP defines a hypothetical condition as “that which is contrary to what exists, but is supposed for the purpose of the analysis.” Standards Rule 1-2(h) says a hypothetical condition may be used only if:

1. use of the hypothetical condition is clearly required for legal purposes, for purposes of reasonable analysis, or for purposes of comparison;
2. use of the hypothetical condition results in a credible analysis; and
3. the appraiser complies with the disclosure requirements set forth in USPAP for hypothetical conditions.

In order to meet the client’s needs the use of the hypothetical is required for purposes of reasonable analysis. Appraising subject to the hypothetical condition (i.e. the site is appraised as only 5 acres, when in fact it is larger) can usually lead to credible results. One exception to this might be the case where zoning requires 10 acres. Finally, the appraiser must comply with the disclosure requirements in Standards Rules 2-1(c) and 2-2(a, b, or c)(viii).

Since the subject is not a five-acre parcel, you must appraise as though as of the effective date it had been legally subdivided. Identifying which five acres is being appraised is obviously a very important factor in handling this type of assignment properly. If the subject is a very large tract and the house is well off the road, perhaps

you will not be able to describe a five-acre parcel that meets the local dimensional standards (i.e. minimum road frontage, setbacks, width to depth ratios, etc.) and has the driveway and improvements all located within a five-acre area. For example, you might be asked to include only 5 acres of a 70-acre property where the driveway runs three quarters of a mile from the road to the garage. In this case the hypothetical condition could be misleading, and not allowed under USPAP.

In a case where the subject is eight acres, or even eighty acres, and the client wants the value as if it were only five acres, it can usually be accomplished. Some appraisers believe that without a survey being drawn to generate a legal description, the assignment cannot be completed. While having the hypothetical five-acre tract surveyed would certainly be the ideal way to handle the problem, it is often not practical to go to the expense of a survey in this situation. USPAP Standards Rules 1-2(e)(i) and 2-2 (a, b & c)(iii) require the appraiser to identify and report the property's location and physical and economic characteristics, but a legal description is not specifically required.

### A Solution

Here is an example of how an appraiser might handle such an assignment. The subject is a somewhat irregularly shaped 7.5-acre lot with 350' along the road, 900' deep on one side and 965' deep on the other. As long as none of the essential improvements are near the back of the lot, a hypothetical lot description of approximately 350' x 622' could be used. The appraiser could describe the lot as being approximately 5 acres with 350' of frontage along the road and 622' of depth. The appraiser should be aware of the general location of the well and septic if present. The appraiser should also include a detailed description of the actual conditions as compared with the hypothetical condition.

As an addendum, a Hypothetical Site Map depicting the existing site, and a dashed line showing how it would be changed to include just the five acres should be included. The appraiser should be sure that there is no question that the dashed line was inserted by the appraiser, not a surveyor, and that its location and the acreage are approximate.

Unless the improvements considered in the appraiser's value opinion can fit on five contiguous acres in a reasonable configuration, it may be inappropriate to complete the assignment. If the improvements are so scattered that they can all be included only if the resulting lot is so irregular that it could not be practically accomplished or would result in a site that would not meet market standards, then it probably should not be appraised as though on five acres.

Standards Rules 2-1(c) requires that all hypothetical conditions be clearly and accurately disclosed. Standards Rule 2-2(a, b, or c)(viii) requires that the appraiser state all hypothetical conditions and state that "their use may have affected the assignment results." USPAP no longer dictates where in the report these disclosures and statements must appear. USPAP does require that the report be presented in a manner that is not

misleading, so it is probably best that the appraiser refer to any hypothetical conditions in conjunction with any statement of assignment results.

In a Summary Appraisal Report, there may be a value opinion stated in a transmittal letter, at the end of the report form or narrative presentation and perhaps in a summary of salient facts. In each of those locations where the value opinion is stated, it could also be stated that the opinion was developed subject to a hypothetical condition that may be described elsewhere in the report.

### Caveats

The appraiser must remember that although the client may not be interested in the value of the excess acreage, the entire parcel will be encumbered by the mortgage. If the borrower defaults, the entire property will be subject to foreclosure. The five-acre assignment results can be misleading if there are undisclosed adverse conditions that are on the site, but not on the five acres that are included by the appraiser. For example, if there were a "5 acre maximum" assignment for a property that, among other problems, had an automobile junkyard on a 70+ site. The junkyard area might be 1,000 feet from the house, and not on the hypothetical five acres parcel. But, to appraise the front five acres in this case and disregard the possible environmental issues elsewhere on the site clearly would be misleading.

Remember also that state laws and local zoning and subdivision regulations in different jurisdictions may affect the assignment. It is the appraiser's responsibility under the Competency Rule to be familiar with the local regulations.

### Conclusion

So, to answer the questions "Can I appraise a larger property as though it was only 5 acres?" - generally, yes. "But won't I will need to have the 5 acres surveyed?" - not necessarily. "Then how will I know what 5 acres I am appraising?" - you decide and describe.

These assignments can usually be done without violating the standards. A key to properly performing this type of assignment is to report them in such a way as not to be misleading. Anyone reading the report should clearly understand what was done, how it was done and why it was done.