

*When estimating market price, an appraiser should be specific as to the estimate of exposure time assumed in connection with the price estimate.*

- imate must be described and explained; and
- (iv) the price must represent the normal consideration for the property sold unaffected by special or creative sale concessions granted by anyone associated with the sale; or
  - (v) if a price estimate is based on special or creative sales concessions or incentives, the terms of such concessions must be clearly set forth, their contributions to or negative influence on price must be described and estimated, and the market data supporting the market price estimate must be described and explained.

When estimating market price, an appraiser should be specific as to the estimate of exposure time assumed in connection with the price estimate. The effective date of the market price estimate would reflect the anticipated prospective transaction date, after reasonable exposure time to the market.

The discussion of cash equivalency and other identified financial terms, creative sale concessions or incentives, and reasonable exposure time to the market

should appear in an appropriate section of the appraisal report that presents the discussion and analysis of market conditions. It should also be referenced at the statement of the market price definition and conclusion.

## CONCLUSION

A. Scruggs Love, Jr. and James J. Mason articulate the problem as follows: "While an opinion of current *MV* may be a legal requirement . . . and an appropriate appraisal function, it may not answer the . . . real question: What can the property be sold for at a future date? People in the real world—the RTC, lenders, and other potential sellers of real estate that use appraisal services—need estimates of future sale prices (values) and opinions relative to the time frames in which these prices might be achieved."<sup>2</sup> Trying to use a market value (USPAP definition) appraisal to answer a market price question is analogous to trying to play tennis with a golf club—the tool doesn't fit the reality. The proposed market price definition and accompanying standards offer a practical solution to this real-world appraisal problem.

## Developing a File Memoranda System

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All businesses operate under pressure to deliver their products and immediately begin other profitable sales activities. Non-revenue-generating activities such as file memoranda or other paperwork are often overlooked under this pressure. While for most businesses this is not a major consideration, for appraisal firms, which may have to defend their positions and opinions years into the future, the need for an efficient file memoranda system becomes critical. Further, candidates for Appraisal Institute designations are provided the groundwork by such a system for sup-

porting their appraisals for experience credit so that they can obtain their professional designations, especially if they are in a work environment where full narratives are not always prepared, such as a bank. Both managers and employees benefit from a workable file memoranda system.

### THE FILE MEMORANDA SYSTEM

A file memoranda system includes a property data section, comparable worksheets, general market data files, a note

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2. A. Scruggs Love, Jr., and James J. Mason, "Controversy in the Definition of Market Value," *The Appraisal Journal* (October 1992): 559.

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or correspondence file, and other information. Each section is interrelated and provides the groundwork for the appraisal. If the data, conclusions, and thought processes used within the report can be explained, an appraiser's position and opinions can be defended at any time, which is one of the purposes of a file memoranda system.

## PROPERTY DATA

The property data section can consist of extensive field inspection worksheets and analysis sheets or handwritten, abbreviated notes. The *Uniform Standards of Professional Appraisal Practice* (USPAP) do not dictate a format or regimen for how the basic information on a property should be acquired and prepared for inclusion in a report; however, when an appraisal report lacks an explanation for an item or issue, the file memoranda usually is the only written evidence that can support its position. It thus behooves a firm to develop a uniform system for translating this information into the necessary foundation to properly support or defend a position or item in a report.

An efficient file memoranda system must have a property inspection worksheet. Some firms have a worksheet for each different type of basic property; others have a standard worksheet an appraiser can customize to specific properties. Some have both short forms and long forms for inspections, depending on need.<sup>1</sup> Either way is acceptable if all necessary items of description are included on the worksheet for further analysis. The content and layout of a field inspection sheet can enhance an appraiser's ability to present property data.

### Organization

The information to be entered on the worksheet is best organized by function. If an appraiser is going to the zoning department, all zoning inputs should be in one area of the worksheet so that nothing is overlooked during the field visit. Similarly, the site description, the building exterior, the building interior, previous sale information, flood map information, neighborhood surroundings, general

building items, and other items should be placed within individual sections. If the worksheet is organized according to the appraiser's typical field inspection procedure, filling in the forms is further enhanced.

For instance, if an appraiser usually goes to the municipal building to gather property-specific information first, that should be on the first page of the inspection worksheet. Similarly, if he or she visits the property second, this should also be incorporated in the early sections of the worksheet. The sample worksheet presented in Figure 1 embodies this concept. Section 1, represented by the number in a double-line box, is general information gleaned from the letter of authorization; Section 2 is basic ownership, assessment, and land description information obtained from the local assessor; Section 3 is floodplain information from the township engineer; Section 4 is the previous sale information on the subject derived from the County Hall of Records; and Section 5 contains property-specific data obtained from the physical inspection of the subject and its environs.

### Content

Although certain items are common to all property types, other items are less common. Items important to a client, the value conclusion, and comparison with comparables should be used as guidelines for determining what should be incorporated into the field inspection worksheet. For instance, the presence of a sprinkler system, the percentage of office area, the number of loading doors, and the clear ceiling height for an industrial building are germane to a client and important to a value conclusion, and should be placed within an industrial field inspection sheet or under an industrial heading for a general field inspection sheet. Other items, however, such as descriptions of floor covering, interior lighting, and exterior landscaping do not require a separate listing or heading; a general comments section may be sufficient, especially if an appraiser is experienced in field inspections. The second page of the sample field inspection worksheet can be used by a field appraiser with an average level of expe-

1. H. Robert Mandel, "How to Operate an Appraisal Office," Edith J. Friedman, ed., *The Encyclopedia of Real Estate Appraisal*, 3d ed. (Englewood, New Jersey: Prentice Hall, 1978), 1203-1207.

**FIGURE 1 Inspection Form**

Property Type: Industrial  
 Address: 123 Anywhere St.  
 City, State: Main St., USA  
 Date of inspection: January 7, 1993  
 Block/Lot: Block 100, Lot 1  
 Zoning: Light industrial

Tax Map   
 Copy of Zoning   
 Zoning Map   
 Flood Map   
 Approval Status   
 Afford. Housing (Y/N/NA)   
 Rent Control (Y/N/NA)   
 Copy of Deed

Check Off

**Ownership and Real Estate Taxes**

Owner's name: John Doe  
 Address: 1 Broad Street  
 City, state, zip: Main St., U.S.A.

Floodplain: C  
 Map Number: 340500-005C  
 Map Date: August 6, 1990

**Assessment**

Land: \$100,000  
 Building: \$500,000  
 Total: \$600,000  
 Tax rate/year: \$2.50/\$100  
 Tax Ratio: 88.05%  
 Last reval.: 1989

**Previous Sale History**

Grantor: John O. Citizen  
 Grantee: John Doe  
 Date: January 13, 1991  
 Book/Page: Book 4200, Page 12  
 Consideration: \$490,000  
 Mortgage: \$300,000, 10%, 5yrs

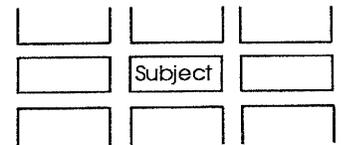
**Land Description**

Land Dimensions: 100 feet X 100 feet  
 Land size: 10,000 square feet  
 Shape: Square  
 Topography: Level

**Neighborhood Land Uses**

% Built up: 98%  
 Residential: 0%  
 Office: 20%  
 Commercial: 0%  
 Industrial: 76%  
 Apartment: 2%  
 Vacant Land: 0%

**Surrounding Land Uses**



**General Building Description**

Age: 20 years effective  
 # of Stories: 1 and part 2  
 Basement: None  
 Square footage: 50,000  
 Sq. Ft./floor: 50,000 1st  
 Sprinklered: Wet throughout

Fire alarm: Yes  
 Burglar Alarm: Yes, tied to police  
 # and type of loading doors: 2 rear drive-in and 2 side loading tailgate with levelers

**Building Exterior**

Frame: Steel  
 Exterior: Concrete block  
 Roof: Flat asphalt paved  
 Windows: Glass in aluminum frames

**Exterior Comments**

Front sand brick exterior, minor wall cracks along southern side of building, roof paved 4 years ago. No evidence of external or functional obsolescence.

**Building Interior**

% of office: 25%  
 # of units: Single tenanted  
 Heating: Gas forced air  
 A/C: Office area only  
 Room or unit: N/A  
 Other: \_\_\_\_\_

**Elevator/Walk-up/None (circle)**

Walls: Sheetrock  
 Lights: Fluorescent  
 Ceilings: Acoustic tile in office  
 Floors: Carpet in office  
 Appliances: Standard kitchen fixtures in cafeteria

**Interior Comments**

Warehouse area heated by 6 overhead gas heaters, interior in good condition, minor wear to carpets, layout includes 3 private offices, entry foyer, main floor area, restrooms for men women in office area.

**Site Improvements**

Curbs: Concrete  
 Sidewalks: Concrete  
 Street lights: Along streets  
 Sewers: Along streets  
 Fire Hydrants: Along streets  
 Street Direct.: North/South  
 Parking spaces: 29  
 Garages: N/A  
 Other site imp.: 40,000-square-foot asphalt paved lot

rience. A checklist-based form similar to the Uniform Residential Appraisal Report, customized for commercial properties, would help those with limited experience in property inspection focus on what items should be considered for that type of property. Most of the layout and content from this form can be used directly in commercial assignments.<sup>2</sup>

### **Brevity**

A shorter and more concise form is easier for an appraiser to fill out, especially if it is organized in the individual sections previously discussed and if the appraiser has a comfortable level of field inspection experience. The purpose of the field inspection sheet is to help collect, organize, and report important inspection information, not to overburden an appraiser with unnecessary paperwork.

### **Checklist**

Appraisers can have busy days in the field and a helpful checklist somewhere in the report can make the difference between forgetting an important item and having to return to the site. For instance, items such as a copy of the tax map, a copy of current zoning ordinances, a flood map, the approval status, and a copy of the deed can be checked off upon completion. The sample worksheet in Figure 1 presents many of these important items and also serves as a reminder of the various locations at which that information can be obtained.

## **GENERAL MARKET DATA FILES**

A second important item in the file memorandum system is the general market data file. All appraisal firms have such a file but most of the data in these files are unused or are too old to be of value for current reports, especially with rapidly changing markets. Organizing these data according to property type is essential, and further organization according to year of publication can show areas with insufficient data for current reports. Often relevant articles or data are not used within a current report, even when they could help support an opinion or position. It is helpful to photocopy meaningful articles and include them within the addenda.

Such articles, however, should also be referenced at least once within the body of the report.

## **COMPARABLE WORKSHEETS**

Many firms have established standard comparable field worksheets for gathering land sales, improved sales, rental data, and absorption estimates. This is a necessary item for firms that maintain a computerized data bank. It is often necessary to have separate worksheets for each property type. Although reporting formats vary, any layout that efficiently contains a listing of important items that affect the value or marketability of a property will suffice. For computerized firms, a comparable field worksheet similar to a computer input screen is recommended to minimize transcription errors and reduce appraiser or secretarial work. Rather than listing each item separately and making the comparable worksheets voluminous, a general comment section can usually incorporate many of the items that do not materially affect the value or marketability of a property. The sample comparable field worksheet presented in Figure 2, while general in nature, has the advantage of flexibility and can be used for any type of property.

Additional information or a comparable photograph can be attached to the back of the form. Again, brevity is important because information the market does not recognize as affecting the marketability or value of a comparable property is extraneous. For instance, the clear span between I-beams in an industrial building might not be recognized as affecting value or marketability, so delving into this information for each comparable sale would be a waste of effort.

## **CORRESPONDENCE OR NOTE FILES**

Field inspection sheets cover the basic external data-gathering process; correspondence files help substantiate the remainder of the data-gathering process. A correspondence file is a record of phone conversations and other methods used to gather data in addition to physically visiting the site. Appraisers typically make many phone calls to clients, property

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2. For an example of this form, see *The Appraisal of Real Estate*, 10th ed., (Chicago: Appraisal Institute, 1992), 566-567.

**FIGURE 3 File Memorandum—Phone Contacts**

Subject Address: 123 Anywhere Street, Anytown U.S.A.

Date	Person	Phone #	Reasons for Calling	Results
1/7/93	John Q. Citizen	555-1234	Arrange inspection of subject	Inspection set for Jan. 10th
1/10/93	John Q. Citizen	555-1234	Get operating expenses	Will fax
1/10/93	Jane Smith	555-9999	Sale and rental comparables	Will fax
1/12/93	Gregory Moy, Esq.	555-6816	Attorney for grantee - verify sale #3	Confirmed
1/15/93	Cliff Roberto	555-0009	Return phone call regarding appointment to testify on appeal	Left message

Additional Comments:  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

maps, originals that were photocopied, multiple-listing printouts, an unbound copy of the appraisal, picture negatives, and building plans.

**CONCLUSION**

A file memoranda system does not have to be an onerous undertaking. An efficient, well-organized system can benefit an appraisal firm, its employees, and can-

didates for professional designations. Although all important elements should be incorporated into the appraisal report, the file memoranda allow an appraiser to substantiate positions, assumptions, and conclusions well into the future. By developing an efficient file memoranda system, an appraiser's thought processes and data can be preserved and the exposure of an appraisal firm can be limited, which in itself is justification to maintain such a system.