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CHAPTER 5. PROPERTY ANALYSIS.

- 5-1. ANALYSIS OF PHYSICAL IMPROVEMENTS. Analysis of the physical improvements results in conclusions as to the desirability, utility and appropriateness of the physical improvements as factors in the determination of mortgage risk and the ultimate estimate of value.
- 5-2. ANALYSIS OF SITE. The appraiser must analyze the site to establish the basis for comparing the estimates of market prices of sites in the estimate of replacement cost of the property and to determine suitability for the existing or proposed use.
- 5-3. HIGHEST AND BEST USE OF SITE. For both proposed and existing construction, the appraiser must determine the present highest and best use for the site disregarding improvements which may exist or which are proposed for the site. The conclusion serves as the basis of comparison for estimating the market price of the land and discloses the extent to which the existing or proposed building improvements are appropriate or inappropriate to the site.
- 5-4. EXCESS LAND. The term Excess Land is defined as being that area by which the plot exceeds the area of a readily marketable real estate entity.
- A. Excess land occurs when the subject lot is considerably larger than typical lots in the neighborhood, and the excess is capable of separate use. However in small communities and outlying areas different criteria must be used since the market may readily accept a wide variance in lot sizes due to wide differences in lot use by this segment of the market.
- B. When it has been determined that the plot contains excess land, the area of the readily marketable real estate entity, together with the existing or proposed improvements, is delineated and is appraised in the prescribed manner. The excess land is described but is not appraised. A requirement is made that the excess land be excluded from the mortgage security.
- 5-5. TOPOGRAPHY. Proper topography and site grading can be an important element in preventing wet basements, damp crawl spaces, erosion of soils, and overflowing sewage disposal systems. The appraiser must analyze the relationship of street grades, floor elevations and lot grades to ensure proper protection. Where foundations or their bearing soils may be affected by seepage or frost, the dwelling is unacceptable unless the surface and subsurface water is diverted from the structures so as to ensure positive drainage away from the foundation.

- 5-6. SUITABILITY OF SOIL. The soil and subsoil conditions of the site must be considered. The type and permeability of the soil, the location of the water table, surface drainage conditions, compaction, and the existence of rock formations are among the physical features that are important in the analysis of the site. Effects of the adverse features of the adjoining land must also be observed.
- 5-7. OFF-SITE IMPROVEMENTS. Consideration must be given to the off-site improvements adjoining the subject property. These improvements consist of street surface, curbs, sidewalks, curb cuts, driveways, aprons, etc., which are not contained within the legal boundaries of the site but enhance the market acceptance and the use and livability of the property. Other situations requiring consideration of off-site improvements are:
- A. Proposed construction dwellings located in an approved subdivision must comply with the off-site improvements as required by HUD Handbook 4135.1 and set forth in the subdivision file.
  - B. The subject property must be compared with the immediate neighborhood to determine the predominate off-site improvements required by the market. Necessary off-site improvements that are not in existence or are proposed to be installed for the subject property must be made a condition of the commitment.
  - C. Any proposals for the installation of off-site improvements and the levying of assessments by the local governing body in the near future will necessitate a commitment condition requiring the installation of improvements and the payment of the assessment prior to insurance endorsement.
- 5-8. EASEMENTS, RESTRICTIONS, OR ENCROACHMENTS. Consideration must be given to any easement, restriction or encroachment and its effect on the value. These should be listed on the application. However, such factors are often not discovered until after the appraisal report is complete.
- A. The appraiser must inspect the site for any obvious signs of easements, restrictions and encroachments not included in the application. If additional information is needed to fully disclose the nature of an easement, restriction or encroachment, the application should be returned to the mortgagee for further information.
  - B. Factors considered in the value estimate must be recorded in the Uniform Residential Appraisal Report.
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5-9. PROPOSED CONSTRUCTION. Where unusual cuts, fills, retaining walls, etc., are necessary in preparing the site for the proposed building improvements, the appraiser must make an estimate of the amount by which the cost of the work exceeds the cost of preparing typical sites for similar structures from the Marshall and Swift Cost Handbook. This estimate is supplemental to the estimate of replacement cost of building improvements.

- A. When estimating the market price of a site where unusual site characteristics must be corrected, comparisons are made under the assumption that the site is in the condition which will exist after completion of the corrective work. The cost of the treatment is disregarded, but the value of the improved site is used in the estimate of replacement cost of the property.
- B. The appraiser uses the supplemental cost estimate to determine the extent to which the replacement cost of the property will exceed the cost of a substitute property produced by constructing identical building improvements on a typical site. It is also used as an indication of the extent to which value may be less than replacement cost for that part of the cost in excess of the cost of preparing the typical site.
- C. The cost of treating unusual site characteristics must not be included in the Estimate of Replacement Cost of Building Improvements. This is necessary to avoid including both the effect of site treatment and the cost of the work in the Estimate of Replacement Cost of the Property.

5-10. EXISTING DWELLINGS AND DWELLINGS COMPLETED LESS THAN ONE YEAR PRIOR TO THE APPRAISAL WITHOUT HUD OR VA APPROVAL AND INSPECTIONS.

The condition of existing building improvements is examined at the time of appraisal to determine whether repairs, alterations, or additions are necessary. If so they should be those items essential to eliminate conditions threatening the continued physical security of the property. Required repairs will be limited to those necessary to preserve the continued marketability of the property and to protect the health and safety of the occupants.

Although existing dwellings are inspected by the appraiser, the appraiser may request the assistance of the Architectural Section as the need arises. The appraiser will then determine whether to accept the property as is, reject it, or determine the extent of repairs, necessary to make the property acceptable for HUD mortgage insurance.

- 5-11. NONCOMPLIANCE WITH THE GENERAL ACCEPTABILITY CRITERIA. When examination of existing construction reveals noncompliance with the General Acceptability Criteria (HUD Handbook 4905.1), an appropriate specific condition to correct the deficiency is required in the report if correction is feasible. If correction is not feasible, and compliance can be effected only by major repairs or alterations, the property shall be rejected and the reasons explained in the report. In such cases, the appraiser provides an "as is" value, which is an estimate of the market value of the property if major repairs were not needed, less the estimated cost of needed repairs.
- 5-12. CONDITIONS REQUIRING REPAIR.
- A. Typical Conditions requiring repairs or replacements are: termite damage; damaged, inoperative or inadequate plumbing, heating or electrical systems; broken or missing fixtures, rotten or worn out counter tops; any structural failure in framing members; leaking or worn out roofs; defective paint surfaces (See "Lead Based Paint" below.); masonry and foundation damage; drainage problems; wood floors worn through the finish; broken plaster or sheetrock; and requirements to meet the code but only in certain HUD programs requiring code compliance.
  - B. Deferred Maintenance. Any element which, while still operable or useful, will have reached the end of its useful life within a period estimated not to exceed two years, should also be replaced. With respect to such deferred maintenance items, good judgment must be exercised.
  - C. Replacement Because of Age. No Replacement of an element simply because of its age and for no other reason, shall be made if the element is still functioning well. Where there is doubt because of age, but the element or system appears satisfactory, a certification as to its condition may be required.
  - D. Health and Safety. The appraiser shall make such other requirements as are essential to the health and safety of the occupants.
- 5-13. CONDITIONS NOT REQUIRING REPAIRS. Conditions which do not ordinarily require repair include any surface treatment, beautification or adornment which is not connected to work required for the preservation of the property, its continued physical soundness or marketability, or the health and safety of its occupants. Some examples are:
- A. A wood floor whose finish has been worn off to expose the bare wood must be sanded and refinished; but a wood floor which has darkened with age but has an acceptable finish does not need polishing or refinishing.
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- (5-13) B. Peeling interior paint and broken or seriously cracked plaster or sheetrock require repair and repainting, but paint which is adequate though not fresh need not be redone.
- C. Missing shrubbery or dead grass on an existing property need not be replaced.
- D. Cleaning or removal of carpets is required only when they are so badly soiled as to affect the liveability and/or marketability of the property.
- E. Installation of paved driveways or aprons should not be required if an otherwise acceptable surface is present.
- F. Installation of curbs, gutters or partial paving of a street is not required unless assessment for the same is imminent.
- G. Complete replacement of tile floors is not necessary because some tiles do not match, etc.

NOTE: Unnecessary requirements should be avoided because they increase the cost of housing without adding any basic amenities to the property.

5-14. LEAD BASED PAINT. For all properties constructed before 1978, the appraiser must inspect all interior and exterior surfaces, such as walls, stairs, deck porch, railing, windows or doors for defective (chipping, flaking or peeling) paint. (Exterior surfaces include those surfaces on fences, detached garages, storage sheds and other outbuildings and appurtenant structures.) In condominiums, exterior surfaces and appurtenant structures of only the unit being appraised need be inspected.

- A. If an area of paint on the property is defective, the commitment must contain the requirement that the surface to be treated must be thoroughly washed, sanded (but not machine sanded), scraped, or wire brushed so as to remove all defective paint before repainting. The surface must receive, as a minimum, two coats of a suitable non-lead based paint.
- B. The defective paint on applicable surfaces must be removed or covered with materials such as hardboard, plywood, plaster, or other suitable materials.
- C. Escrows for the treatment of defective paint conditions affecting the exterior portion of the house as well as appurtenances, are allowed only during periods of adverse weather conditions, typical for the area, which preclude the satisfactory completion of the work or in connection with 203(k) Rehabilitation. The mortgagor must request the establishment of

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- (5-14) the escrow and acknowledge the existence of the defective paint surfaces. Escrows for interior defective paint surfaces other than the 203k Program are not acceptable.
- D. A property involving a Veterans Administration Certificate of Reasonable Value, in which the dwelling was built between 1950 and 1978, require that the mortgagee provide evidence from a HUD-approved inspector that either no defective paint conditions exist or that defective paint conditions were found and correction is required. The fee for this service cannot exceed the normal inspection fee. The mortgagee is responsible for making payment to the fee inspector. The charge for this service. will be assessed to the seller of the property. If an exterior escrow is approved, a fee for the inspection follow-up must be included in the escrow amount.
- E. The lead-based paint requirements do apply to refinance transactions that require an appraisal, but do not apply to refinance transactions that do not require an appraisal.
- F. Persons buying homes built before 1978 must receive the consumer information pamphlet on lead-based paint poisoning. (See pages 5-12a and b)
- 5-15. ADEQUACY OF FUNCTIONAL COMPONENTS. The appraiser must consider not only the condition of the property and its equipment but also the functional adequacy of those components under conditions typically expected. Inferior quality roofing, plumbing, and heating equipment, undersized hot water heaters, and bottom of the line appliances are items which must be of concern to the appraiser in estimating value.
- 5-16. STANDARDIZED PRE-PRINTED SPECIAL CONDITION (v.c) SHEET. The Chief Appraiser in each Field Office, in conjunction with the Chief Architect, will establish a list of typical requirements for proposed and existing properties. The list will contain all valuation conditions which are typically used within the Field Office jurisdiction. The valuation condition (v.c) sheet shall be clearly and simply written so that the mortgagor, mortgages, seller and tradesmen will easily understand and identify the work to be completed. The sheet will also provide space for use by the appraiser when adding conditions not pre-printed on the condition sheet such as a requirement for a structural engineer's report or reinspection of the roof when it is no longer covered with snow. The condition sheet will be revised periodically as changes in conditions are needed.

5-17. REPAIR INSPECTIONS AND HOME INSPECTIONS.

- A. An Inspection by the appraiser is normally required to determine whether required repairs to an existing property have been satisfactorily completed. Only in those instances where minor repairs involving no technical or structural skills or knowledge are required can the Field Office or Direct Endorsement Mortgages Underwriter waive the inspection by the appraiser and accept a mortgagee's certification of completion of such repairs. When the inspection is performed by the mortgagee, they may collect the same fee allowed to an appraiser for this service.

The repair inspection is only for the purpose of assuring that necessary repairs as set forth in Conditional Commitment or Statement of Appraised Value have been met. No further requirements may be added.

- B. Homebuyers of existing properties or properties completed less than one year that were not approved by HUD or the VA prior to the start of construction and that do not involve a 10 year warranty may arrange for an inspection by a private, professional Home Inspection company and include the cost of such inspection in their closing costs up to \$200.00.

5-18. CODE ENFORCEMENT FOR EXISTING PROPERTIES.

- A. Local housing code standards are designed by local municipalities. Accordingly, enforcement of such housing standards rests with the local authority. HUD has neither the authority nor responsibility for making such inspections or enforcing laws of the municipality.
- B. The only HUD program in which code enforcement is required by statute is Section 221(d)(2) of the National Housing Act which states " . . . and meeting the requirements of all State laws, or local ordinances or regulations relating to the health or safety, zoning, or otherwise, which may be applicable thereto . . . ." Accordingly, at the time of closing, all mortgages on existing construction dwellings insured under Section 221(d)(2), must be supported by evidence in the form of a letter from the local code enforcement agency that the dwelling conforms to the standards of local housing codes, regardless of whether such codes are regularly enforced at the time of sale or whether the community has a program of active code enforcement.

There are two exceptions to this requirement:

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- (5-18) 1) If a local community has no codes containing standards which can be applied to existing dwellings, a copy of a letter from an authorized official of the local community or an appropriate local authority stating that no codes exist, must be placed in the file.
- 2) The homebuyer may employ a home inspection company to perform a home inspection, to include code conformance, and provide a certificate, signed by a local official that the property meets local codes. The cost of such inspection may be included in the buyer's closing costs up to a maximum of two hundred dollars.
- C. The cost of making code repairs will not necessarily increase the value of the property by the same amount but must be measured by market reactions. HUD repair requirements may be the same or may differ from those required by the code inspection depending on the particular case.
- 5-19. CERTIFICATION OF MECHANICAL EQUIPMENT. The appraiser should require a certification only when unable to determine the condition of certain components of the home. A reinspection to examine systems not in operation at the time of the appraisal should be required except where the system is new, or nearly new, and raises no questions as to its adequacy and condition.
- A. Any plumbing, heating, air conditioning, roofing or electrical certifications required by the appraiser will be ordered by the mortgagee. Certifications will be accepted only from reputable, independent, licensed (where licensing exists) contractors or qualified home inspectors.
- B. Contractors selected for any specific certification shall not have any identity of interest with any firm or person connected with the specific transaction nor may they perform any recommended repairs. It shall be the responsibility of the Field Office to notify mortgagees of undesirable firms if a review of their performance indicates inadequate, inaccurate or otherwise poor certification reports. The cost of any repairs found to be necessary may be borne by the seller, buyer or any other party.
- 5-20. DESIGN. Design is the cohesive element that blends the structural, functional and decorative elements of a property into a whole. With good design the property's parts will be in harmony--(each part with all the other parts). The whole property, in turn, will be in harmony with its immediate site and environment. Because good design is recognized and desired, the economic life of properties



and neighborhoods will be extended and prices obtainable will typically

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(5-20) exceed those that can be obtained for properties offering the same number of rooms and area but lacking in elements of good design. This competitive advantage, usually continues through the entire economic life of the property. It is this demonstrable price differential that must be recognized by the appraiser and reflected in his/her comparative adjustments of market data and final finding of value.

5-21. CONFORMITY OF PROPERTY TO NEIGHBORHOOD. A residential property of good physical characteristics may not necessarily be good security for a mortgage loan, even though situated in a good location. It may be that the property would be entirely appropriate at another location, but not in its actual location. The property may be displeasing when viewed in relation to its surroundings, and it may not conform in other respects to the use which would be most marketable in the particular neighborhood. Elements other than similarity of physical characteristics must be considered in determining the effect of property-neighborhood relationships to marketability.

5-22. ANALYSIS OF THE ELEMENTS OF CONFORMITY. Analysis of Conformity requires consideration of Suitability of Use-Type, Appropriateness of Functional Characteristics, Harmony of Design, and Relation of Expense of Ownership to Family Income Levels.

A. Suitability of Use-Type. The term Use-Type refers to the use for which a dwelling is designed - single-family, two-family, and so forth. In most neighborhoods only one use-type is suitable. In some neighborhoods, however, because of their heterogeneous development several use-types may be found suitable.

1) The marketability of a dwelling designed for single family use is usually restricted if it is located in a neighborhood of multiple-family buildings. When the highest and best use is for multiple-family structures, land cost may be too great for single-family dwellings and economic life is shortened.

2) In apartment house areas amenities customarily desired by purchasers of single-family homes are reduced and restricted and densities are greater than those considered acceptable by

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- (5-22) the single family home market. Additionally, neighborhood associations that protect occupants of single family neighborhoods are not usually found.
- B. Appropriateness of Functional Characteristics. Functional Characteristics refer to the living facilities provided in a residential property. They relate to site use and to arrangement, number, and size of rooms. Usually well-defined neighborhood market preferences are observable.
- 1) Nonconformity may be present because of the placement of the house upon the site. Deviation from the accustomed or accepted placement should be carefully considered to determine whether it adversely affects desirability. Side, front and rear yards should conform to conditions found to be appropriate to the neighborhood if desirability is to be maintained.
  - 2) If a site is substantially smaller than the size typical in the neighborhood marketability may be restricted. Similar effects on marketability may result where the shape or topography of a particular lot makes it less desirable than those typical of the area.
  - 3) The number, arrangement and size of rooms frequently conform to definite preferences in given neighborhoods. In some localities where one-story dwellings predominate, a two-story dwelling may meet with considerable market resistance. Similarly, a dwelling with small rooms might be restricted in marketability in neighborhoods where dwellings with large rooms are preferred.
- C. Harmony of Design. Conformity of the exterior design of a structure with those of other structures in the immediate neighborhood is not important except where it contrasts inharmoniously with them. There may be considerable variety in the exterior design of dwellings in a neighborhood and yet each may present a pleasing appearance when viewed in relation to its surroundings. On the other hand, a dwelling may be without any architectural faults and yet clash so violently with the design of neighboring properties that marketability may be seriously restricted. For example, if a two-story Colonial residence were

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- (5-22) erected in neighborhood characterized by one-story Spanish bungalows, it would probably be unattractive to prospective occupants irrespective of the excellence of its individual design.
- D. Relation of Expense of Ownership to Family Incomes. Families usually select homes in neighborhoods where typical occupants have financial means similar to their own. Because of this tendency the expense of owning or renting a home must be in proper relation to the incomes of prospective purchasers or renters to whom the location appeals as a place of residence. A home that is too costly for these families to purchase or maintain will have limited marketability.
- 5-23. REMAINING ECONOMIC LIFE OF BUILDING IMPROVEMENTS. Because buildings are subject to physical deterioration and obsolescence, their periods of usefulness are limited. As they deteriorate or become obsolete, their ability to serve useful purposes decreases and eventually disappears. This decline and ultimate disappearance of utility may occur gradually or rapidly.
- A. Economic Life vs. Physical Life. The period between the time of completion of the building and the time when it is no longer fit or safe for use, or when it is no longer practicable to maintain it in safe usable condition, is its total physical life. The total economic life of a structure is the period of time between the completion of the building and the disappearance of its ability to produce services or net returns over and above a return on the land value.
- 1) Economic life can never be greater than physical life, but may be and frequently is less.
  - 2) A structure may be sound and in good physical condition with a number of years of physical life remaining and yet have reached the end of its economic life, if its remaining years of physical usefulness will not be profitable.
- B. Estimation of Remaining Economic Life. In predicting the remaining economic life of a building, six factors are considered:
- 1) Economic background of the community or region and the need for accommodations of the type represented;
  - 2) Relationship between the property and the immediate environment;
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- 3) Architectural design, style, and utility from the functional point of view and the likelihood of obsolescence attributable to new inventions, new materials, and changes in tastes;
  - 4) Trend and rate of changes of characteristics of the neighborhood and their effect upon land values;
  - 5) Workmanship and durability of construction, and the rapidity with which natural forces cause physical deterioration; and
  - 6) Physical condition and probable cost of maintenance and repair, the policy of owners and occupants with respect to maintenance, and the use or abuse to which structures are subjected.

C. End of Useful Life of Building Improvements. The useful life of a building has come to an end when the building is incapable of producing an annual income or services sufficient to offset the expense of maintenance, insurance and taxes to produce returns upon the value of the land and rehabilitation would not be feasible. The improvements upon the lot at the time possess no more value than the amount which can be obtained from a purchaser who will buy them and remove them from the site.

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U.S. Department of Housing and Urban Development

NOTICE: WATCH OUT FOR LEAD PAINT POISONING

TO: PURCHASERS AND TENANTS OF HOUSING CONSTRUCTED BEFORE 1978.

This building was constructed before 1978. There is a possibility that it may contain lead-based paint.

PLEASE READ THE FOLLOWING INFORMATION CONCERNING LEAD PAINT POISONING

The interior of older homes and apartments often have layers of lead-based paint on the walls, ceilings, window sills and door frames. Lead-based paint and primers may also have been used on outside porches, railings, garages, fire escapes, and lamp posts. When the paint chips, flakes or peels off, there may be a real danger for babies and young children.

Children may eat paint chips or chew on painted railings, window sills or other items when parents are not around. Has your child been especially cranky or irritable? Is he or she eating normally? Does your child have

stomachaches and vomiting? Does he or she complain about headaches? Is your child unwilling to play? These may be signs of lead poisoning, although, many times there are no symptoms at all.

If you have seen your child put pieces of paint into his or her mouth or someone told you this, you should take your child to the Doctor or clinic for testing.

Inform other family members and baby-sitters of the dangers of lead-poisoning.

Look at your walls, ceilings, door-frames, window sills. Are there places where the paint is peeling, flaking or chipping? If so, there are some things you can do immediately to protect your child:

- (1) Get a broom or stiff brush and remove all loose pieces of paint from walls, woodwork and ceilings;
- (2) Sweep up all the pieces of paint and plaster and put them in a paper bag or wrap them in newspaper. Put these packages in the trash can. Do not burn them.
- (3) Do not leave paint chips on the floor. Keeping the floor clear of paint chips, dust and dirt is easy and very important.
- (4) Do not allow loose paint to remain within your children's reach, since children may pick loose paint off the lower part of the walls.

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As a Homeowner:

You should keep your home in good shape. Water leaks from faulty plumbing, defective roofs or exterior holes and breaks may admit rain or dampness into the interior of your home, damaging walls or ceilings, causing paint to peel, crack or flake. These conditions should be corrected immediately. Before repainting, all surfaces that are peeling, chipping or loose should be thoroughly cleaned by washing, sanding, or brushing the loose paint from the surface; then repaint with two (2) coats of non-lead paint; or cover the surface with other material such as wallpaper or paneling. Simply painting over deteriorated paint surfaces does not remove the hazard.

As a Renter:

You should notify the Management Office or the Landlord immediately if the unit in which you live has water leaks from faulty plumbing, or defective roofs, or if you have peeling, flaking paint. You should cooperate with the Management Office's or Landlord's efforts to repair any deficiencies and keep your home in good shape.

Remember that you as a parent play a major role in the prevention of lead poisoning. Your actions and awareness about the lead problem can make a big difference.

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I have received a copy of this Notice.

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Date

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Signature