

DMBA Appraisal Update – May 2022

Special request questions for DMBA Members? If any of you have questions during the month, please feel free to email or call for a personal response. If the topic is of enough interest, it can be expanded and included in next month's update. Thanks,

Mark Bond mark@markbondco.com 972-733-1007

Mark's Market Thoughts:

Our local markets remain in shortages and houses are still being bid above list price by competing buyers. However, interest rates have risen significantly over the past few months. The entry level markets are now at \$300k+ and remain in distant suburban markets or in small pockets of urban renewal section of town. The wealthy are still paying cash or obtaining minimal loans and the interest rates have not, . . . yet affected the higher priced SFRs. This spring we have observed some of the most rapid and stronger price jumps ever, for the Dallas market.

What next? Unsettled world affairs with Russia, China contain the greatest threat to our economy and could become the economic catalysts for a rapid change of direction. Our borders and local politics will have some impacts however, the greatest threats "within remain" interest rates and governmental regulations. Words as Diversity, Equity, Inclusion, (DEI) are being presented to the Realtors and appraisers associations. I have yet to have an informed discussion with a proponent of the DEI and would be interested in their perspectives.

The most recent change in the appraisal field started April 1st and will be reforming the lending and appraisal market over the next years. The ANSI-Standards are importing enough to repeat again this month.

Thank you,

Mark Bond, MAI, SRA

Fannie Mae to Adopt ANSI Measurement Standard in 2022



On December 15, 2021, Fannie Mae issued [Announcement SEL-2021-11](#) which heralded a number of changes that were made to its *Selling Guide*. Several of the changes are aimed at underwriters and do not affect appraisers; however, there is one significant change for appraisers that will change the way they inspect properties in the not-so-distant future.

As of April 1, 2022, Fannie Mae will require appraisers to measure subject property improvements using ANSI Standard Z765-2021. According to the Announcement, “Appraisals requiring interior and exterior inspections must follow this standard; appraisals of this type performed without using this standard will not be acceptable.”

The American National Standards Institute (ANSI) revised its Z765 Standard early in 2021; previous versions of this standard should not be used. Appraisers should note that ANSI Z765 applies only to single-unit (single-family) residences. Also, ANSI Z765 must be used in its entirety; an appraiser is not permitted to pick and choose which part or parts of the standard to use.

. Here are some items for appraisers to consider when using the ANSI Z765-2021 standard

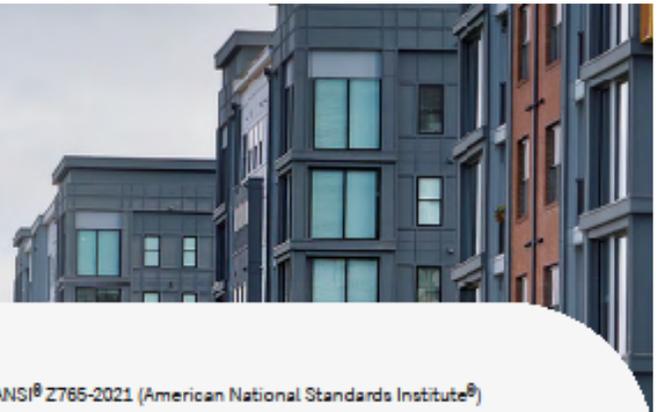
- Measurements are taken to the nearest inch or tenth of a foot, and the final square footage is reported to the nearest whole square foot.
- Staircases are included in the GLA of the floor from which they descend.
- Basement is any space that is partially or completely below grade.
- The GLA calculation does not include openings to the floor below, e.g., two-story foyers.
- Finished areas must have a ceiling height of at least 7'. In a room with a sloping ceiling, at least 50% of the finished square footage of the room must have a ceiling height of at least 7' and no portion of the finished area that has a ceiling height of less than 5' can be included in the GLA.
- If a house has a finished area that does not have a ceiling height of 7' for 50% of the finished area, e.g., some cape cods, in conformance with the ANSI Standard, the appraiser may put this area on a separate line in the Sales Comparison Grid with the appropriate market adjustment. The report will be ANSI-compliant and acknowledge the contributing value of the non-GLA square footage.
- Fannie Mae requires this standard effective April 1, 2022.

What if comparable sales are measured differently?

GLA for properties in local MLS systems and assessor records may not be ANSI-compliant. The appraiser may not know what method an MLS listing or assessor used to calculate the GLA. Through research and their knowledge of the local market, appraisers determine if the GLA provided through alternate sources should be adjusted. The adjustment process does not change the requirement to report subject GLA to the ANSI standard



Standardized Property Measuring Guidelines



Updated guidance

Appraisers will be required to use the Square Footage-Method for Calculating: ANSI[®] Z765-2021 (American National Standards Institute[®]) Measuring Standard for measuring, calculating, and reporting gross living area (GLA) and non-GLA areas of subject properties for appraisals requiring interior and exterior inspections with effective dates of April 1, 2022 or later on loans sold to Fannie Mae.

Historically, Fannie Mae's *Selling Guide* has not required the use of a specific measurement standard. This policy update will standardize the method used to measure, calculate, and report GLA and non-GLA areas of subject properties.

All footprint sketches and floor plans must be computer-generated (not hand-drawn), indicate all the dimensions needed to calculate the GLA and other required areas such as garage and basement, and show the calculations to demonstrate how the estimate for gross living area was derived.

Why the change?

Valuations of residential property correlate strongly with GLA, yet to date there is little consistency in how appraisers determine it. Our adoption of the ANSI standard for measuring, calculating, and reporting square footage:

- Creates alignment across market participants.
- Provides a professional and defensible method for the appraiser.
- Allows transparent and repeatable results for the user of the appraisal report.

How well do you know ANSI?

Here are some items for appraisers to consider when using the ANSI standard¹:

- Measurements are taken to the nearest inch or tenth of a foot, and the final square footage is reported to the nearest whole square foot.
- Staircases are included in the GLA of the floor from which they descend.
- Basement is any space that is partially or completely below grade.
- The GLA calculation does not include openings to the floor below, e.g., two-story foyers.
- Finished areas must have a ceiling height of at least 7'. In a room with a sloping ceiling, at least 50% of the finished square footage of the room must have a ceiling height of at least 7' and no portion of the finished area that has a ceiling height of less than 5' can be included in the GLA.
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Is there an exception process?

If the appraiser is unable to adhere to the ANSI Standard, the appraiser will provide the code "GXX001 -" in the Additional Features field on the appraisal form and must explain why compliance was not possible. For example, berm homes with their entire square footage below grade would be eligible for an exception. The appraiser must provide justification for an exception, lenders are responsible for confirming the appraiser provided an adequate explanation. Fannie Mae will monitor for inappropriate use of exceptions (i.e., using methods other than the ANSI standard for homes that have typical above grade square footage).

What next?

For additional information, see *Selling Guide* [B4-1.3-05](#), Improvements Section of the Appraisal Report and [B4-1.2-01](#), Exhibits for Appraisals.

Appraisers can visit [Home Innovation Research Labs](#) to obtain a copy of the standard and might consider taking a continuing education course to sharpen their skills.

Appraisers are encouraged to begin using the ANSI Z765-2021 Standard as soon as possible; however, it will be required for appraisals with effective dates of April 1, 2022 or later.

¹ American National Standard for Information Sciences — Square Footage — Method for Calculating, ANSI, Z765-2021 (approved March 2021)