



Highest and Best Use and the URAR

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Adhere to USPAP and the
Fannie Mae Selling Guide in
Developing and Reporting
H&BU

Address Colorado BOREA itemized
investigator directive “Were legally
non-conforming uses, interim uses,
other special situations analyzed
(and addressed in the report?)”

From understanding why
H&BU must be reported, to
summarizing its
development in the URAR

Objectives

Teach the H&BU analyses required for the URAR, and prepare the appraiser to tell the State why and how s/he reached the result s/he reported.

- Why report H&BU in the URAR?
- What must be included in the development of H&BU?
- Why report a summary of the development of H&BU in the URAR?
- What must be included in the development of the site H&BU and the improvement H&BU?

Success Factors

- Appraisers will be able to successfully withstand scrutiny with respect to H&BU development and reporting on the URAR.
- Appraisers will be able to teach other appraisers why and how to report H&BU on the URAR.

Direct from the URAR

Is the highest and best use of the subject property as improved (or as proposed per plans and specifications) the present use? Yes No If No, describe

WHY?

WHY?

Because Fannie
and USPAP
require it!!!

“Fannie Mae will only purchase or securitize a mortgage that represents the highest and best use of the site as improved.”

“For improvements to represent the highest and best use of a site, they must be legally permitted, financially feasible, and physically possible, and must provide more profit than any other use of the site would generate. All of those criteria must be met if the improvements are to be considered as the highest and best use of a site.”

“If the use of comparable sales demonstrates that the improvements are reasonably typical and compatible with market demand for the neighborhood,…”

“and the present improvements contribute to the value of the subject property so that its value is greater than the estimated vacant site value,...”

“...the appraiser should

consider the existing use as

reasonable and report it as the

highest and best use.”

H&BU vacant site analysis for Fannie
requires answers to specific
questions:

1. What uses are legally permissible?
2. What uses are physically possible?
3. Of the permissible and possible uses which would maximize the vacant site value?
4. What is the value of the subject as is?
5. Does the present improvement add value to the site as if it were vacant?

CHECK THE BOX!

Is the highest and best use of the subject property as improved (or as proposed per plans and specifications) the present use? Yes No If No, describe

Now that the appraiser has reported a
H&BU opinion, USPAP requires a
summary of the H&BU development
to be reported.

Because, how can the appraiser report an opinion that has not already been developed?

How about an “Atmospheric extraction?”

If you don't develop, then your conclusion is an
unsupported assumption.

Gotcha!



An atmospheric extraction
is only make believe.

USPAP requires support for
an opinion.

Analysis of relevant legal,
physical, and economic
factors

Development of H&BU

Vacant Site:

- Legal?
- Physical?
- Feasible?
- Economic (feasible)?
- Value?

Presently improved Site:

- Legal?
- Physical?
- Economic (feasible)?
- Adds Value?

Fannie Mae defines highest and best use as a use that adds value to the estimated value of the site as vacant, therefore the appraiser may conclude analysis beyond determining whether the present use adds value is unnecessary.

Wrong!

BOREA requires the appraiser to develop and report a full H&BU analysis of the subject and all comps and identify the maximally productive use of each as well as any special situations!

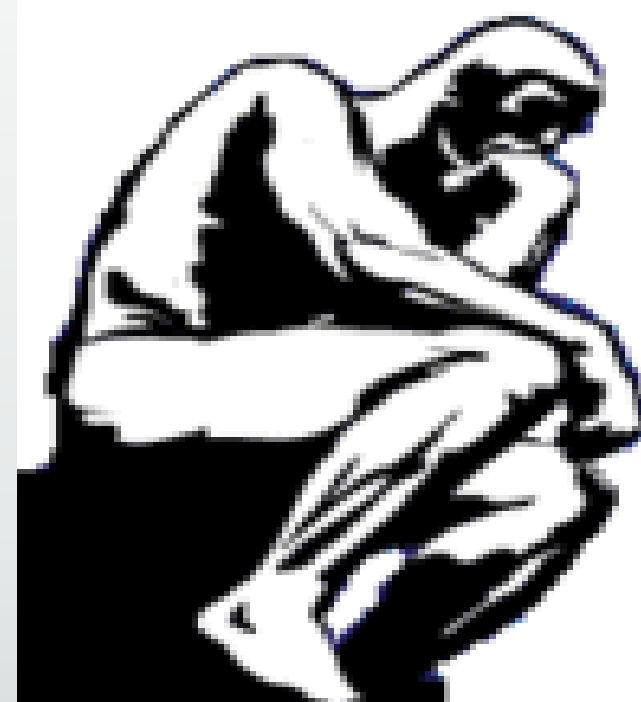
But, what's a
Summary?

What's in a summary?

Facts



Reasoning



Be brief but
thorough

Remember

ONE

Fannie requires the appraiser to report whether the present improvements are the H&BU.

TWO

USPAP says “if necessary for credible assignment results the appraiser must develop an opinion of H&BU.”
and...

THREE

USPAP says “when an opinion of H&BU was developed, a summary of the support and rationale” must be included in the report.

FOUR

If you report you must develop-
avoid atmospheric extraction.

EXPLAIN WHY!!!!

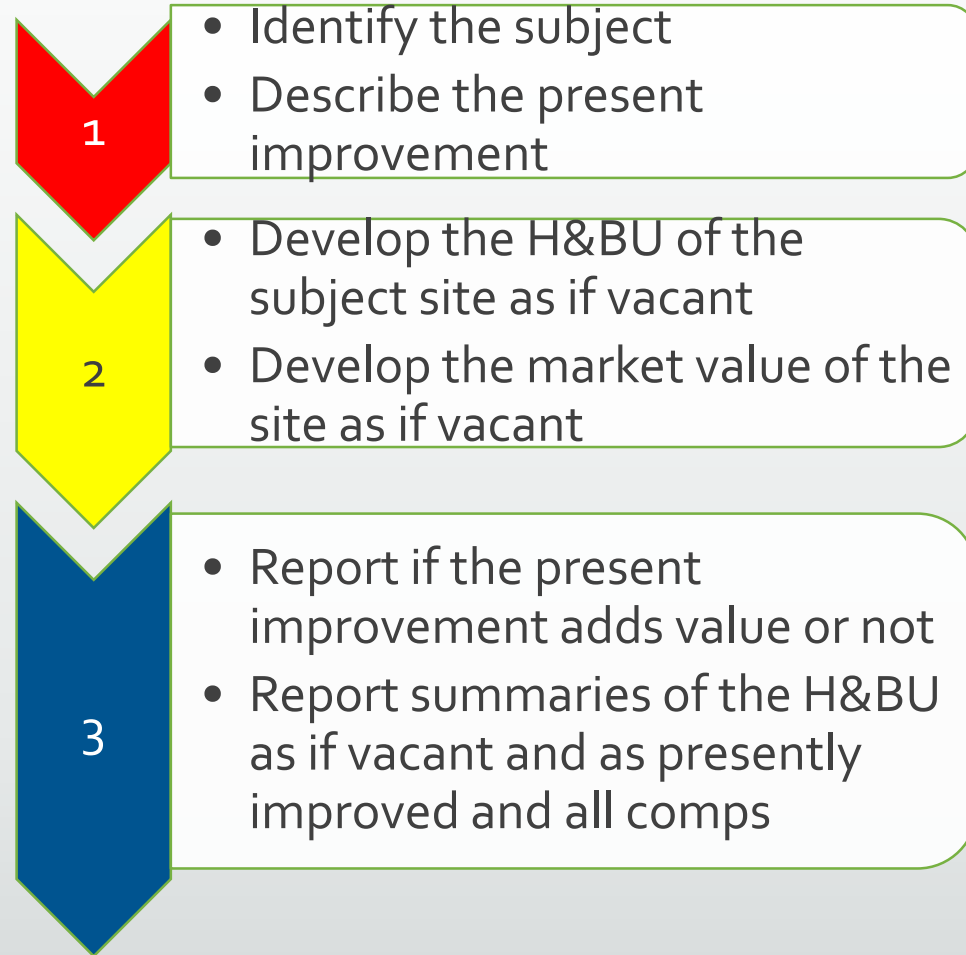
Explain the support and rationale for your H&BU conclusion; it's *why* you reached your conclusion.



**Atmospheric
Extractions**



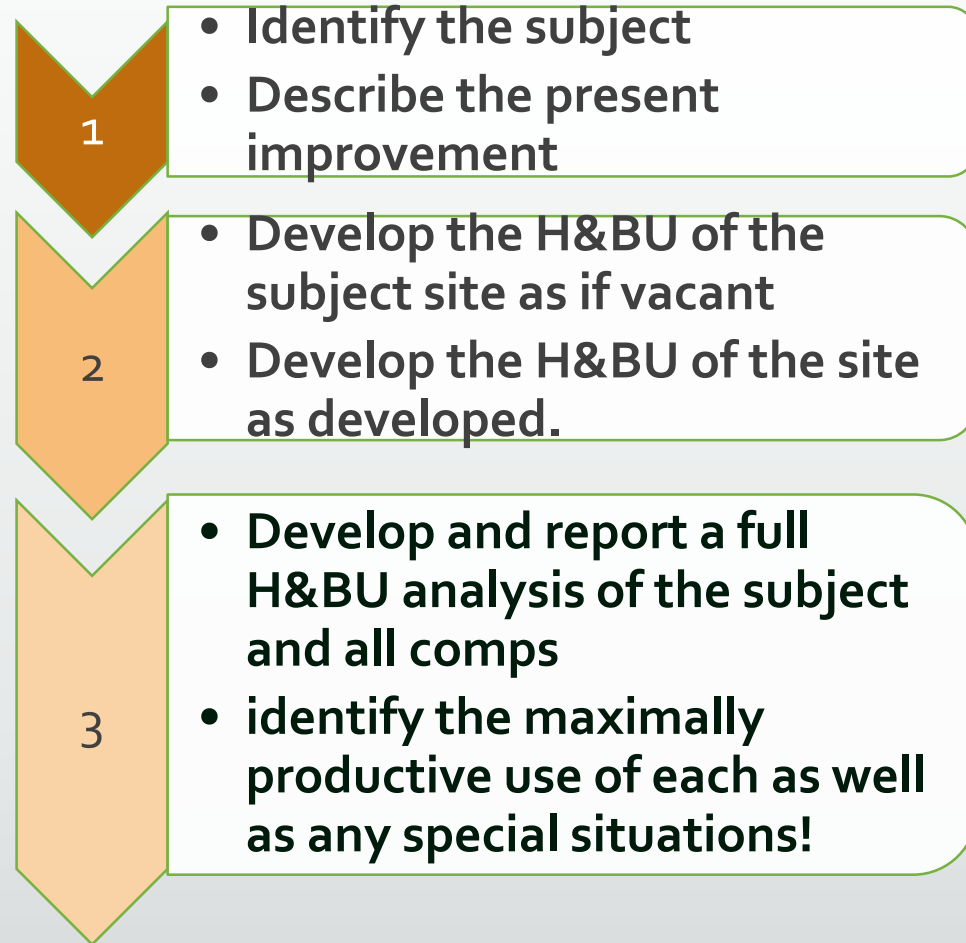
The Initial Scope of Work



■ Now the Fannie Guide and USPAP H&BU summary requirement are arguably satisfied.

But what
about
BOREA?

Add the BOREA Scope of Work



Be prepared to tell BOREA why you completed this additional work.

HINTS



SPECIAL SITUATIONS

- legally non-conforming uses
- interim uses
- Excess land
- Surplus land

Case Study

See the handout

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Consulting for appraisers who are being sued or who are being
investigated by a state appraisal board.