



# DEFINING PROPERTY TYPES & APPRAISAL TERMS

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## Defining Property Types & Appraisal Terms

Getting started in the real estate investment space can be challenging and understanding how different terms may apply to an investor's project is crucial for a successful result. To help investors navigate their way around a potential deal, we have created a set of useful terms and definitions that are used over a variety of real estate investment areas.

*Defining Property Types & Appraisal Terms* will provide an overview of commonly seen investment property types and the terms that come up during the appraisal process. This collection will offer investors a solid understanding of how properties are classified and the importance of appraisals to an investment property.

### AFTER REPAIR VALUE (ARV)

The value of the property after the listed repairs have been completed. This is determined by the appraisal.

### APPRAISAL MANAGEMENT COMPANY (AMC)

An independent entity that provides real estate evaluation services. The AMC chooses an appraiser to appraise the value of a property and provides the appraisal report to the lender. **An AMC functions as a barrier of influence between the lender and the borrower.** The AMC prevents borrowers and lenders from cherry picking specific appraisers who may feel indebted to come up with a certain value in return for regular business.

### APPRAISAL

A valuation performed by a licensed appraiser **to ascertain the market value of a property.** This can be done from a number of different views: income approach, cost approach, market value, after repair value.

#### Appraisal Form Types

**1007:** *A single-family comparable rent schedule.*

**216:** *An operating income statement.*

**1004:** *A uniform residential appraisal report.*

**1025:** *Used for 2-4 family properties.*

## AS-IS-VALUE

The current value of a property as it is at that point in time.

## COLLATERAL DESKTOP ANALYSIS (CDA)

A desktop review of the appraised value of the property without a physical inspection. The CDA reassesses the original appraisal to provide a complete loan file by using tax records and a multiple listing service (MLS).

## COMMERCIAL PROPERTY

Any property that is 5 or more apartment units, mixed use property, office, retail, hotel/motels, warehouses etc.

## COMPARABLE BASED APPROACH

A method of appraising real estate by using comparable properties to determine that value of a property. The comparable properties used for evaluation are typically properties that have sold in the past 12 months.

## CONDITION RATINGS

Appraisal condition ratings indicate the physical state of the property. The condition rating can be found toward the end of the “Improvements” section on the Uniform Residential Appraisal Report and is part of a description of why that rating was chosen:

**C1:** New Property

**C2:** No deferred maintenance, little or no physical depreciation & recent updates

**C3:** Well Maintained, with normal wear and tear and, perhaps, some updates

**C4:** Minor deferred maintenance requiring only minimal repairs

**C5:** In need of significant repairs

**C6:** Substantial damages or significant need of major repairs





## DRIVE BY APPRAISAL

**An exterior only appraisal of a property.** You can only use a drive by appraisal for a loan if you get permission prior to ordering. Since the appraiser won't be going into the property, there is more risk and uncertainty with the report, so some lenders may ask for an additional down payment on the loan which is released upon receipt of a full interior appraisal post-closing.

## ENVIRONMENTAL SCREENING

Type of report that is required on all commercial/mixed use properties. If the report comes back showing an elevated environmental risk or higher, a phase 1 study will be required.

## INCOME BASED APPROACH

A method of appraising real estate by using the generated income to determine that value of a property.

### Calculation



$$\frac{\text{NOI}}{\text{Cap Rate}} = \text{Property Value Based On Income}$$

## MANUFACTURED HOME

Manufactured homes are also known as trailer homes. You may hear them referred to as single or double wides

## MARKET RENT

Amount of rent a willing landlord might reasonably expect to receive, and a willing tenant would reasonably expect to pay to rent the unit. This number is determined by the appraiser and can have a big impact on loans for rental properties.

## MEDIAN HOME VALUE

The middle value of all properties within a given market. Half of the market will sell for more, half of the market will sell for less than the median value.

## MIXED-USE PROPERTY

A type of property that includes both commercial and residential units. Due to the property having commercial space, the overall property is considered commercial real estate and is subject to commercial real estate guidelines, similar to an apartment building.

## MODULAR HOME

Prefabricated buildings or houses that consist of repeated sections called modules.

## MULTI-FAMILY

A type of property where multiple residential units are within one building or on one parcel of land. Small multi-family properties are usually 2-4 units. Larger properties are typically apartment buildings with 5+ units that are either side-by-side or on top of each other.

## NON-WARRANTABLE CONDO\*

Non-warrantable condos do not meet standard lending guidelines and are ineligible for government-backed loans because of their risk. Ask your lender if they finance non-warrantable condos.

*\*not funded by RCN Capital*





## PROPERTY CONDITION ASSESSMENT (PCA)

A due diligence report sometimes required on commercial/mixed use properties for underwriting. The property is inspected by experts to understand the condition of the property and potential issues e.g. does the property meet code for sprinkler systems?

## PHASE 1

An environmental site assessment report that is used to identify potential or existing environmental contamination liabilities. Often used when a property has a leaking underground oil tank or septic system.

## RENT-TO-OWN\*

Also known as a **lease-option** or **lease-to-own**, rent-to-own transactions are when the tenant pays their rent toward the purchase of the property in a specific amount of time (usually one to three years) at a fixed price.

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## REAL ESTATE OWNED (REO)

Typically refers to real estate owned by an institutional or government owned entity. This is often the type of property that investors are purchasing as many of the properties can't be financed through conventional mortgages due to the property's condition.

## RURAL

Areas of low population density and mostly undeveloped land. If an area is less than 25% developed land you can expect the appraisal to come back as rural. Ask your lender if they lend on rural properties.

## SINGLE FAMILY RESIDENCE (SFR)

Also known as a single family detached, an SFR is a residential property meant for one family. An SFR is a popular property for fix and flips in investment real estate.

## SITUS

This is an appraisal review that is done on **mixed use and commercial property loans**. It is requested after the commercial narrative appraisal has been completed.

## SURVEY

A property **survey determines the precise location** of roads, buildings, and other features that are used to determine any changes to the property line, restrictions on what may be built on a property, where new structures must be located, how large structures may be, and the appropriate building depths for foundations. A survey may be required for commercial and mixed-use property loans.

## WARRANTABLE CONDO

A warrantable condo is a condo in a low-risk building that **meets the lending standards of government-backed entities** Fannie Mae or Freddie Mac.





## About RCN Capital

RCN Capital is a direct private lender that provides funding for non-owner occupied residential properties. Our loan programs are used for purchase, purchase & rehab, refinance, or cash-out of investment properties.

**Visit** [RCNCapital.com](https://RCNCapital.com) \ **Email** [Info@RCNCapital.com](mailto:Info@RCNCapital.com) \ **Call** 860.432.5858

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