

Surveys: A Valuation Tool to Support/Disclaim Damage

by Thomas S. Wagner, SRWA

In 1994, as appraisal supervisor for the Wisconsin Department of Transportation, I had the opportunity to attend the IRWA International Education Seminar. One of the presentations I found particularly interesting pertained to alternative valuation technology.

Years ago, Wisconsin had a research program in place that produced a series of land economic studies documenting the effects of highway projects on specific properties. Many of the studies focused on the relatively new phenomenon of special benefits resulting from the construction of freeway interchanges. Unfortunately, in 1970, workload priorities shifted and the program was discontinued.

The freeway construction era passed, and the focus moved to the improvement of existing two-lane highways and connecting roads. New appraisal problems were created, such as proximity damages, contributing value of landscaping, change of grade, loss of septic systems, and changes in the legal status of setbacks.

As we moved into the 1990s, short-format appraisals and waivers of appraisals were initiated. The time spent on detailed before-and-after appraisals was being continually challenged by the need for improved productivity and increased efficiency as real estate offices struggled to meet the demands of escalating workloads and organizational downsizing.

A recent poll of our district offices indicated to me that the need for research still exists. I felt that the time was right for me to put the idea of alternative valuation technology to work. A survey seemed to be a practical and cost-effective way to gather perspectives from a variety of knowledgeable real estate professionals in an attempt to find answers to the age-old questions that still haunt today's appraisers and reviewers. Market support for appraisal damage conclusions can vary greatly and is extremely time consuming and costly when done on an individual parcel-by-parcel basis.

One of the problems with the old economic studies was that it was hard to apply the results of individual studies to areas that were subject to differing economic influences.

The thought occurred to me that, by polling realtors and lenders, we might learn their perceptions of the effects that highway acquisitions have on real property values through the eyes of buyers or lenders directly concerned with the value of real estate equity. I tried to design a survey that would address the questions and challenges most often expressed to our negotiators by property owners facing such changes. With the help of a limited-term employee, two surveys were prepared; one for realtors and one for lending officials.

The Wisconsin Realtors Association (WRA) assisted us in our task by sending the Survey for Realtors to 3,000 licensed brokers as a part of their regular monthly mailing. We agreed to share the survey results with the WRA and with the individual responding brokers as a marketing tool to help them understand and sell property along highways. The Survey for Lenders was conducted by obtaining the mailing list from the statewide banking association with a similar offer to share the results with them.

We received an excellent and well-balanced statewide response; a 14 percent return (409 of 3,000) from the Realtors Survey and a 49 percent return (229 of 470) from the Lenders Survey. I'm tempted to make a comparison between realtors and bankers, but I've been around long enough to know better.

The next challenge was to process the results of more than 600 surveys, something I would strongly recommend be planned out first. Thanks to a very helpful management information specialist temporarily assigned to our unit to help with another automation effort, and a summer research student who entered and processed the results into a software

program made available to us for this purpose, the task was accomplished.

As promised, the results were sent out to the survey participants and to all of our statewide highway districts to help document and support damages, or the lack of damages, for many of the changes that occur as a result of partial acquisitions. These results are generic, which makes them broadly applicable in a more cost-effective way than individual before-and-after appraisals. The survey method is not intended to replace the appraisal method but rather to serve as an additional data source for both appraisers and negotiators.

The survey compilations are included following this article as an example of the method and type of results that can be achieved. I believe that it might also serve as a useful appraisal and negotiation tool in other states and agencies.

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As a member of IRWA for more than 20 years, he has served in all of the chapter offices and is a past president of Badger Chapter 17. He is currently the chapter chairman of the Valuation Committee and the Region 5 representative on the International Valuation Committee. He has instructed the appraisal and negotiation segments of Course 101 and is an approved instructor for other valuation courses.

Survey for Lenders

1. Does your institution require a well inspection for rural properties?

Yes 73% No 27%

2. Is a septic system inspection required?

Yes 74% No 26%

3. What other tests or inspections are required for rural properties?

None or N/A=41%

Require multiple tests/inspections=13%

Of those that require testing/inspection, the frequencies of various tests are:

1. Environmental risk/environmental observations=23%

2. Appraisal/certified appraiser inspection/overall property/home inspection=19%

3. Water sample tests/safe water tests=14%

4. Survey/plat/drawings=13%

5. Underground storage tanks=10%

6. Contaminations/pollutants=7%

7. Other=7%

8. Pest inspection=2%

9. Visual=2%

10. Pesticides, not in flood plain, rental property requirements=1% each

4. Does your institution have any restrictions regarding septic systems?

Yes 25% No 70%

5. Do you lend on properties with holding tanks?

Yes 91% No 8%

If so, how do pumping costs affect this decision?

1. No problems, none, no impact, very little impact, N/A=61%

2. Part of loan calculations, check income to support cost/ability to pay=17%

3. Monthly payment increased, part of housing costs/longterm debt=15%

4. Other=5%

5. Cost paid by purchaser/same as utilities=2%

6. If an inspection indicates a well or septic that does not comply with codes, what requirements are required prior to approving the loan?

None or N/A=5% Multiple requirements=26%

Of those with requirements, the frequency is:

1. Must comply/bring up to code or working condition/correct/replace=68%

2. Escrow funds for compliance=19%

3. Other=4%

4. Must make future provisions for compliance=3%

5. Must meet specifications or obtain official approval=2%

6. Inspections/rely on appraiser; tests (normal, water etc.); grandfathered, system common for area=1% each

7. What requirements do your secondary market lenders have for well and septic?

None or N/A=10.5% Don't use secondary markets=17%

Require multiple tests=28%

Of those who require testing/inspection, the frequency of the various tests are:

1. Must comply/bring up to code or working condition/correct/replace=50%

2. Inspections/rely on appraiser=20%

3. Tests (normal, water, etc.)=12.1%

4. Escrow funds for compliance=7.5%

5. Must meet specifications or obtain official approval=6%

6. Other=2.6%

7. System must be common for area=1%

8. Must make future provisions for compliance; may be grandfathered=.4% each

8. If corrections are required, does the bank have a preference of who pays for this repair?

Seller/Owner 45% No preference=39%

Agreement negotiated between buyer and seller=10%

Both=2% Other=3% Buyer only=0%

9. Are site surveys required for properties?

Yes 38% No 59% N/A 3%

10. What is your policy for nonconformance to the zoning-required minimum lot size?

No policy, haven't encountered, N/A=29% Multiple answers=29%

Of those with a policy, the frequency of responses were:

1. Must conform=37%

2. Variance needed=18%

3. Other=18%

4. Grandfathered=11%

5. Waiver needed/proof of nonconformance=5%

6. Case-by-case basis=4%

7. County (municipal) Okay=4%

8. Must obtain demolition insurance=3%

11. What is your policy for nonconformance to the zoning-required building setbacks?

No policy, haven't encountered, N/A=29% Multiple answers=14%

Of those with a policy, the frequency of responses were:

1. Must conform=40%

2. Variance needed=24%

3. Other=17%

4. Grandfathered=9%

5. Waiver needed/proof of nonconformance=5%

6. Case-by-case basis=3%

7. County (municipal) zoning Okay=2%

12. Is insurance ever required for nonconformance to zoning requirements to cover the loss in the event a property is ever damaged over 50% and is not allowed to rebuild?

Yes 16% No 66% N/A 18%

Approximate cost per \$1,000 coverage:___ Source:

13. Do you consider the likelihood and history of the community granting variances for nonconforming properties?

Yes 54% No 36% N/A 10%

14. Are variances ever required prior to approving the loan?

Yes 76% No 18% N/A 6%

Copy of survey requested Yes 63% No 29% N/A 8%

Survey for Realtors

1. What percent of rural properties that you list or sell have contingencies that require a satisfactory septic system?
(0-25%) 5% (26 - 50%) 4% (51 - 75%) 4% **(76 - 100%) 87%**
2. What percent of rural properties that you list or sell have contingencies that require a safe water test?
(0 - 25%) 3.7% (26 - 50%) 4.8% (51 - 75%) 4.8%
(76 - 100%) 86.7%
3. Which party typically pays for corrective action?
Buyer 8% **Seller 92%**
4. What percent of lenders require these tests or inspections?
(0 - 25%) 1% (26 - 50%) 3% (51 - 75%) 13%
(75 - 100%) 83%
5. What corrective actions are typically required by lenders?
Full replacement 28% **Repair 70%** None 2%
6. What effect does a nonconforming septic system have on the market value of a rural property?
Won't Buy 14% **Price discounted by cost to cure 67%**
Buyer and Seller share cost 15% No effect 4%
7. If an existing property has a new well or septic system, what percent of cost new is the added value to the property?
(0 - 25%) 54% (26 - 50%) 18% (51 - 75%) 15%
(76 - 100%) 9% (100%) 4%
8. Do buyers recognize the betterment that results from the installation of a new septic system?
Yes 75% No 25%
9. What are the seller's responsibilities regarding disclosure of factors affecting the well or septic system?
Must disclose 94.8% No need to disclose if tests are required 5%
No responsibility 0.2%
10. What are the broker disclosure requirements?
Must disclose all factors known 67% Recommend testing 23.8%
No responsibility 4% Rely on seller's disclosure 8.8%
11. Who typically pays for the tests?
Buyer 34% **Seller 65%** Lender 0.5% Local government 0.5%
12. What is buyer reaction to holding tanks?
Won't buy 32% **Reduced offering price 58%** No reaction 7%
Positive reaction 3%
13. How does a holding tank impact the value of a property?
Price reduced by anticipated pumping costs 69.5%
No effect 5.5% Minor discount 24% Enhances value 1%
Is this different for different types of properties?
Less effect on lower value property 14% No difference 22%
Less effect on lake properties 41% Depends on water usage 23%
14. Are prices reduced to allow for creation of a fund to cover pumping costs for a holding tank?
Yes 30% No 70%
If so, how often have you seen this done?
(0 - 25%) 57% (26 - 50%) 17% (51 - 75%) 17%
(76 - 100%) 9%
How much is required?
(51 - 51,000) 31% **(51,001 - 55,000) 47%**
(55,001 - 10,000) 18% (\$10,001 - \$20,000) 1% More 3%
15. What is the buyer's reaction to mound systems?
Favor them 22.8% **Dislike them 43.5%**
Don't know the difference 33.7%
16. What percent of buyers look into soil conditions and are concerned with the availability of an alternate site for future replacement septic systems?
(0%) 12.2% **(1 - 25%) 49.8%** (26 - 50%) 13.7%
(51 - 75%) 14.7% (76 - 100%) 9.6%
17. What is the typical buyer reaction to joint driveways?
Likes them 0.5% **Dislikes them 83.9%** No effect 15.6%
18. Do joint driveways impact value?
Yes 79% No 21%
19. Please rank the following types of properties in the order that a joint driveway would impact value, with "1" being the most serious effect.
1 Expensive homes 2 Single family under \$75,000
3 Commercial properties 4 Rural properties with long driveway
5 Recreation properties
20. What grade of driveway is typically acceptable to buyers?
(1 - 5%) 25% **(1 - 10%) 57%** (1 - 20%) 14% (1 - 35%) 4%
21. What is the buyer reaction to a steep driveway?
Won't buy 8.6% **Depends on other amenities 48%**
Depends on neighborhood 28.5%
Larger effect on high-value properties 12.5%
Larger effect on low-value properties 2.4%
22. Would this impact a sales price and to what degree?
Yes 83% No 17% (1 - 5%) 38% (6 - 10%) 23%
(11 - 15%) 20%
23. Do buyers prefer the improvements to be above or below the grade of the road?
Above grade 90% Below grade 10%
24. Please rank other factors that might affect this, and how, with "1" being the most important.
1 View from site 2 Distance from road 3 View from road
4 Surface of driveway 5 Alternate ways to access the site
25. Are prices reduced because of nonconformance to building setbacks?
Yes 67% No 33%
If so, to what degree?
(1 - 5%) 21.5% (6 - 10%) 36% (11 - 15%) 17.5%
(16 - 25%) 13% (Over 25%) 12%
26. Please rank the following as matter of importance as setback affects the value of residential property, with "1" being the most important.
1 Value of property 2 Conformance with abutting or surrounding residences 3 Type of road property fronts on
4 Ability to get variances in community 5 Is there room for landscaping
27. Please rank the following as matter of importance as setback affects the value of commercial Property, with "1" being the most important.
1 Type of road property fronts on 2 Ability to get variances in community 3 Value of property
4 Conformance with abutting or surrounding commercial properties 5 Is there room for landscaping
28. Are prices reduced because of nonconformance to minimum site area?
83% Yes 17% No
If so, to what degree?
(1 - 5%) 14% **(6 - 10%) 35%** (11 - 15%) 20%
(16 - 25%) 19% (Over 25%) 12%
29. What percent of the value of a property does landscaping typically contribute?
(1 - 2%) 14% **(3 - 5%) 36%** (6 - 10%) 30% (11 - 20%) 15%
(Over 20%) 5%

Continued ►

30. What percent would typically be the maximum in residential property?
(0 - 5%) 27% (6 - 10%) 35% (11 - 15%) 10.4% (16 - 20%)
18.1% (Over 20%) 9.5%

31. What percent would typically be the minimum in residential property?
(0 - 2%) 45% (3 - 5%) 38% (6 - 10%) 14% (11 - 15%) 1%
(16 - 20%) 2%

32. Please rank factors that impact landscaping contribution in residential property, with "1" being the most important.

1 Value of property 2 Quality of landscaping
3 Type of property 4 Placement 5 Screening 6 Shade

33. How is the value of a residential property impacted by having a less-than-typical front yard?
No effect 1.3% Cost of a variance 5.2% Minor effect 52.3%
Major effect 41.2%

34. How do buyers react to this?
Major effect 38% More concerned with features of house 36.3%
Minor effect 24.4% No effect 1.3%

35. How are prices impacted?
(1 - 5%) 31% (6 - 10%) 29% (11 - 15%) 17% (16 - 25%)
16% (Over 25%) 7%

36. On a scale of 1-14, with "1" being the most objectionable and "14" being the least objectionable to a \$100,000 home, please note the following:

- 1 Home near a landfill
- 2 Home with nonconforming well or bad water
- 3 Home with failing septic system
- 4 Home near a major electrical power line
- 5 \$100,000 home in an area of \$25,000 homes (manufactured home)
- 6 Home located on a very high traffic street
- 7 Home near a shopping center or other commercial establishment
- 8 Home near an elevated water storage tank
- 9 Home with a site size that is nonconforming to zoning requirement
- 10 Home with a steep driveway
- 11 Home with a joint driveway
- 12 Home with less-than-typical or uncared for landscaping
- 13 Home near a school playground
- 14 Home with a very long driveway (over 150 ft. in an area in which 70 ft. is normal)

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