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Monthly Newsletter of the Georgia Real Estate Commission

GREC RENews

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2015 Calendar

GREC Brokerage Course & Trust Accounts Class DatesUH:

- December 9-10,2015 Georgia Institute RE www.learningrealestate.com

Common Violations Class DatesU:

TBA

GREC Annual School Meeting

December 11, 2015

Link to the Georgia Real Estate License Laws, Rules, and Regulations

Link to GREC Disciplinary Sanctions View Current Suspensions and Revocations

Georgia Real Estate Infobase Click Here

GREC Update and Licensee Activity

At the recent meeting of the Georgia Real Estate Commission Education Advisory Committee, Georgia Real Estate Commissioner Bill Rogers reported numbers for the fiscal year ending June 30, 2015. The Commission records indicate the first yearly increase in real estate licensees since 2008.

There were 82,799 real estate licensees at the end of the fiscal year. There were 6,142 new resident licensees and 622 new non-resident licensees. Both numbers indicate an increase in new licensees.

In the 2015 fiscal year, the Commission opened 1,992 new investigative cases. That is the largest number since 2010. As indicated by the chart below, many of the cases are related to background checks, or issues discovered during the application process. 1,971 cases were completed by GREC in FY2015.

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	2010	2011	2012	2013	2014	2015
Pre-License/Application	513	635	548	587	837	934
Brokerage Issue	551	758	552	526	483	613
Non-License Law Matters	75	36	31	6	2	46
Approved School	44	144	108	6	3	50
Trust Account	453	405	430	303	227	255
Appraisal	215	173	292	200	64	73

AMK@PM

Absolutely Must Know @ Property Management

Just like any other brokerage engagement, it is required that every property management agreement must have an effective date of the agreement and a definite date of expiration. At the time of signing the agreement, everyone signing must receive a true copy of the agreement.
Rule 520-1-.06

The property management agreement must specify whether security deposits and prepaid rents will be held by the broker or the owner. If held by the broker, account records must clearly identify any security deposit and show a credit to the specific tenant.
Rule 520-1-.08 (4) (b)

A Community Association Manager, (CAM) is licensed to manage community associations, but is not permitted to conduct the brokerage activities of a salesperson or broker. A broker must hold the license of a CAM.
Rule 520-2-.04 & 520-1-.06

GREC Online Courses
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Also Approved for Instructor CE

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Comments & Suggestions

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Click Here

Link to the Georgia Real Estate License Laws, Rules, and Regulations

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Licensee Activity

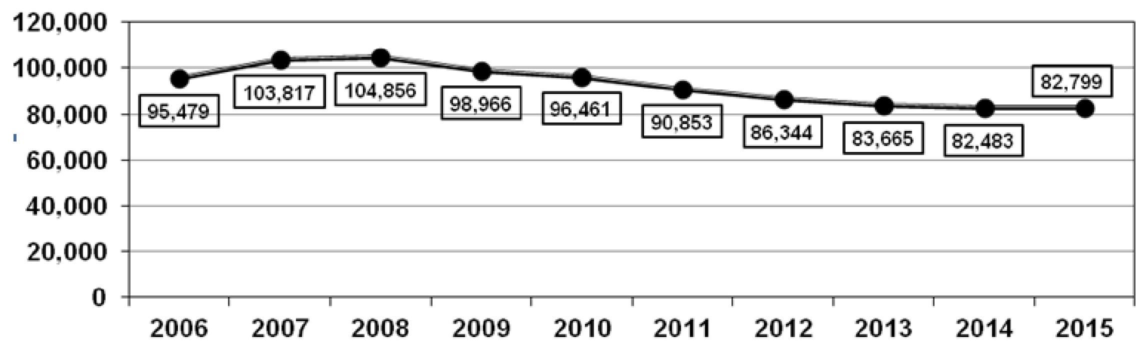
Because of the increase in new licensees, the Real Estate Education, Research, and Recovery Fund has a slight increase in its balance from last year. For each new application for a real estate license, $20 of the fee goes into the Recovery Fund. The Recovery Fund is used to reimburse non-licensees who have been harmed by a licensee but cannot recover from the licensee after obtaining a judgment against the licensee through the courts. The fund is also used to underwrite real estate educational programs and projects.

The Commission has a new Education Director, Ken Johnson, who has experience in real estate and appraisals. He replaces Letitia Jackson who has become a Commission investigator.

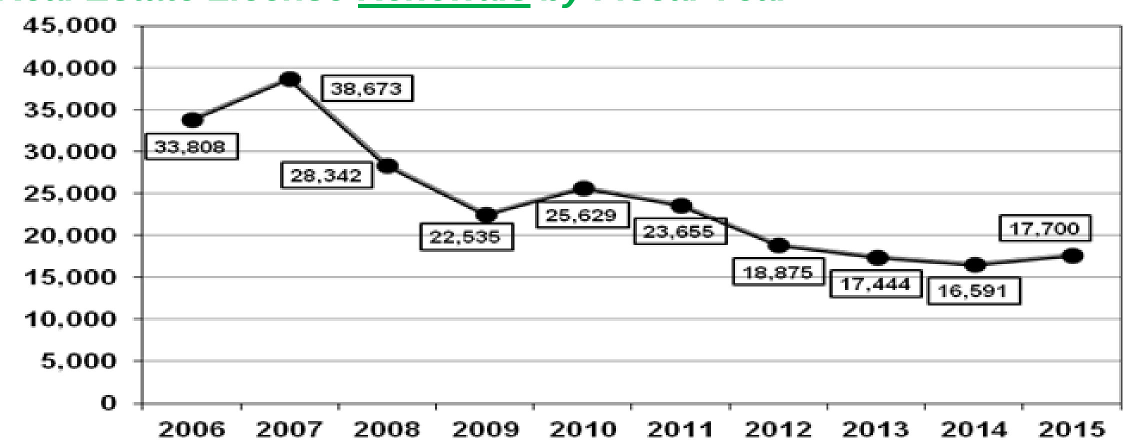
The following graphs give a visual trend of license activity since 2006.

Focus on Numbers "Licensee Activity"

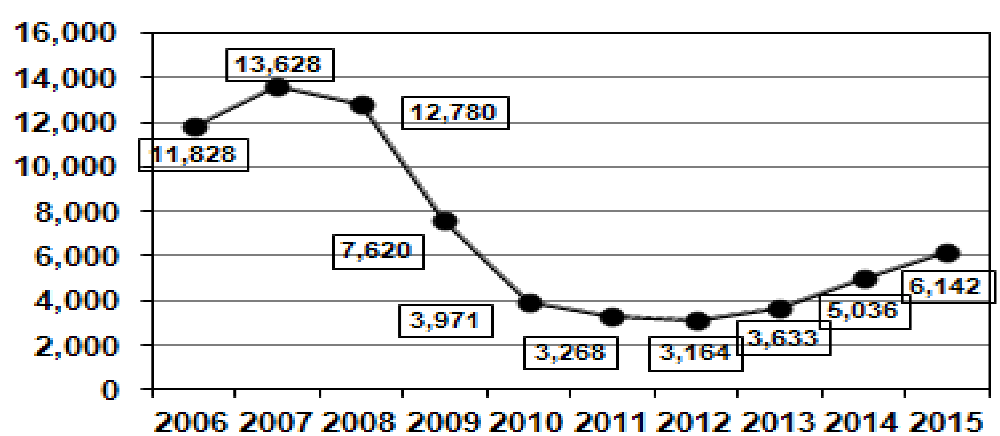
Real Estate Licensees by Fiscal Year



Real Estate License Renewals by Fiscal Year



New Resident Real Estate Licenses Issued by Fiscal Year



The Appraisers Page

Georgia Real Estate Appraisers November 2015

Useful Links:

[GREAB Web Site]

[Appraisal Act]

[GREAB Disciplinary Sanctions]

Three Approaches to Value

By: D. Scott Murphy, SRA

There are three approaches to value that appraisers use to help arrive at an estimate of market value. Those are the sales comparison approach, cost approach and income approach. Each approach should be considered by the appraiser for each appraisal assignment. The appraiser cannot choose the approach that is the easiest or the approach that the client has requested, if other approaches would be credible.

The approaches to value that the appraiser uses must be determined by the appraiser based on the type of property and available data. Some reports may utilize all three approaches while others may use just one approach. The more approaches used by the appraiser does not necessarily make that report more reliable. Often lender imposed requirements to complete certain approaches to value force an appraiser to complete an approach they feel is not credible. For example, the cost approach has very limited utility in the residential appraisal. An older home in an area with little or no recent land sales would be very difficult to value by the cost approach due to the difficulty in estimating the site value and the amount of depreciation.

In understanding the entire appraisal report it is important to be able to identify and understand each approach to value. It is very common when reviewing an appraisal report, the interested party (typically the agents, buyer, or homeowner) will tend to gravitate toward the approach which renders the highest value. It is important to look at all three approaches and identify which should carry the most weight.

Let me explain each approach in more depth so you have a better understanding of how each is developed and when each is applicable.

The sales comparison approach is the most commonly used approach to value for single family residential properties. Remember that the definition of market value is:

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

• Buyer and seller are typically motivated;

• Both parties are well informed or well advised, and acting in what they consider their best interests;

• A reasonable time is allowed for exposure in the open market;

• Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and

• The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.
(The Appraisal Institute's The Dictionary of Real Estate Appraisal, 5th Edition)

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So we have to focus on the typical actions of buyers and sellers. For a single family home those actions would be most influenced by the sale of comparable properties. Most buyers are not purchasing the property for income producing purposes and the older a home gets the less influence is made by the cost of construction.

The sales comparison approach compares a subject property's characteristics with those of comparable properties which have recently sold in similar transactions. In this approach the appraiser must research the market to find the most suitable comparable properties. Not all sales in a given area are comparables. Every effort must be made to find properties with the most similar characteristics of the subject property. The true litmus test when determining comparables is to ask "would this sale have been considered by the typical buyer of the subject property?" I have agents ask themselves, "Would I have shown this property to my buyer of the subject property"? If the subject property is a 3000 sf colonial on a slab– a typical buyer of this property would not consider a 4200 sf colonial on a 1500 sf finished basement – even if they are on the same street – in the same subdivision. All sales are not comparables.

There is no limit to the number of comparable sales an appraiser can use. Standard appraisal practice requires at least three sold comparables but most often it requires more sales in order to truly prove the value. Adjustments are made to the sales price of the comparable properties based on variances with the subject property. Once properly adjusted, the comparables form what is called the adjusted range of value. There is no "one" number any property is worth but more a range of value. If the appraiser has chosen the most appropriate comparables and enough comparables to address all the features of the subject property, the range of value should be within 10%. While most appraisers would prefer to stop right there and offer a range of value, lenders and the way most appraisal forms are written require one specific number. This estimate of market value can theoretically be anywhere within this range.

Appraisers do not just average the high and the low or use the median number. The comparables should be weighted based on similarity, number/amount of adjustments and by which are most recent. The appraiser should state his rational for weighting the comparables and how he arrived at the estimate of market value by the sales comparison approach.

The cost approach is based on the understanding that market participants relate value to cost. In the cost approach, the value of a property is derived by adding the estimated value of the land to the current cost of constructing a reproduction or replacement for the improvements and then subtracting the amount of depreciation in the structures from all causes. Entrepreneurial profit and/or incentive may be included in the value indication. The current cost to construct the improvements can be obtained from cost estimators, cost manuals, builders, and contractors. Depreciation is of three different types (physical deterioration, functional obsolescence, and external obsolescence) and is measured through market research and the application of specific procedures. Land value is estimated separately in the cost approach. This approach is particularly useful in valuing new or nearly new improvements and properties that are not frequently exchanged in the market. Cost approach techniques can also

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be employed to derive information needed in the sales comparison and income capitalization approaches to value, such as an adjustment for the cost to cure items of deferred maintenance. (Appraisal Institute – Understanding the Appraisal) In most situations the cost approach is not applicable as it does not truly demonstrate the actions of buyers and sellers in the traditional single family market. Even new home buyers are more influenced by other properties which sold. It also is true that cost does not automatically equal value. We see this on a regular basis when someone over improves their home with an inground pool. The cost to construct the pool is not equal to the return they will get when they sell the home. The way this is handled by an appraiser is that the difference is called functional obsolescence.

Income-producing real estate is typically purchased as an investment, and earning power is the critical element affecting property value from an investor's point of view. In the income capitalization approach, value is measured as the present value of the future benefits of property ownership. There are two methods of income capitalization: direct capitalization and yield capitalization. In direct capitalization, the relationship between one year's income and value is reflected in either a capitalization rate or an income multiplier. In yield capitalization, the relationship between several years' stabilized income and a reversionary value at the end of a designated period is reflected in a yield rate. The most common application of yield capitalization is discounted cash flow analysis. Given the significant differences in how and when properties generate income, there are many variations in both direct and yield capitalization procedures. The specific data that an appraiser investigates in the income capitalization approach might include the property's gross income expectancy (assuming either market rent or contract rent), the expected reduction in gross income caused by vacancy and collection loss, the anticipated annual operating expenses, the pattern and duration of the property's income stream and the anticipated reversionary value. After income and expenses are estimated, the income streams are capitalized by applying an appropriate rate or factor and converted into present value through discounting. In discounted cash flow analysis, the quantity, variability, timing, and duration of a set of periodic incomes and the quantity and timing of the reversion are specified and discounted to a present value at a specified yield rate. The rates used for capitalization or discounting are derived from acceptable rates of return for similar properties. Most single family home purchases are not made based on the income potential. (Appraisal Institute – Understanding the Appraisal) This approach is reserve primarily for income producing property such as multi-family homes or commercial properties.

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