

# How Much Does Property Condition Affect Residential Property Value?

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## Abstract

Property condition has a significant influence on property value. That does not imply that appraisers must always adjust comparable sales for property condition, since the subject property being appraised and the comparables are frequently of similar vintage and from the same submarket. When adjustments are required, paying attention to market condition matters. The spreads for above-average-condition to average-condition tends to be lower during strong or hot real estate markets. In weaker markets the spread increases considerably. Effective age is correlated with condition and sometimes sufficient as a proxy along with neighborhood location which is also highly correlated with age. Based on these results, valuation models might be improved slightly with additional information on property condition, especially if a subject property is in much better or worse condition than is typical for the neighborhood. The relevance of this research is to examine how important is a variable which has historically required a personal inspection, but now is starting to become available via text mining from past appraisal reports and the Multiple Listing Service.

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## I. Introduction

One might think the question posed in the title is an easy question to answer, but it is not for several reasons. First, all property condition is relative and while data might be available for a subject property being valued, via an inspection, property condition data is not usually available for comparable sales. In fact, automated valuation models (AVMs) have been criticized as being deficient when compared to traditional appraisal because they have historically not adjusted for property condition and views. Second, property condition is somewhat subjective and possibly subject to a wide range of opinion. New found sources of data may be noisy and their reliability requires testing.

Here we review the rating process now required by appraisers and its importance as implied by the observed distribution of ratings from appraisals and Multiple Listing Service (MLS) data. We note that property condition adjustments are not always required when the subject property and comparable properties are of similar vintage and in the same neighborhood, especially when effective age is known, but in general the addition of property condition data, even when based on expert opinion surveys, improves the accuracy of valuation models for individual properties.<sup>1</sup> We also conclude that price spreads for quality differences tend to be lower when market conditions are strong. When market conditions weaken the price changes are relatively larger on the highest quality property condition segment. Last, the marginal benefit of including property condition even when age is known is worthwhile if the subject property is unusual for the local neighborhood. We demonstrate this with a traditional hedonic pricing model with and without property condition data. As such data becomes more available through data mining or explicit form reports, valuation models can improve, especially for atypical condition properties.

Below we provide some background on the topic of property condition, some evidence on how appraisers and real estate agents rate property condition. Last, we explore some of the benefits of including property condition to valuation models even when effective age is known.

## Background

"In July of 1985 the California legislature enacted the first statute requiring sellers of residential real property, and participating brokers, to disclose to prospective purchasers comprehensive information relative to the condition, value and desirability of the property offered for sale. Within a few years thereafter, sixteen other states passed legislation mandating a more limited form of disclosure by sellers, but not by brokers. Many of the remaining thirty three states appear to be considering the more limited, prevailing form of mandatory property condition disclosure legislation."<sup>2</sup> Today, as of 2016 all states require sellers to disclose property condition, and Fannie Mae has codified a rating system used by much of the market.<sup>3</sup>

For homes, most appraisers use the Uniform Residential Appraisal Report, or URAR Form 1004.<sup>4</sup> A description of the home's condition is included in the "Improvements" section of the URAR the appraiser

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<sup>1</sup> When valuing portfolios of properties one can use simpler models that omit several variables but are still accurate when applied to a group of properties, as long as the omitted variables are random in their impact.

<sup>2</sup> From RESIDENTIAL REAL ESTATE CONDITION DISCLOSURE LEGISLATION by Robert M. Washburn, DePaul Law Review, Volume 44, Issue 2 Winter 1995 Article 3

<sup>3</sup> See the Appendix, the Fannie Mae Property Condition Report.

<sup>4</sup> From "How Much Does Condition Factor Into Real Estate Appraised Value?" by Tony Guerra, see references.

must complete. Home appraisers must also describe any physical deficiencies or adverse conditions affecting the livability, soundness or structural integrity of the homes they're appraising. In the URAR, appraisers compare subject homes to at least three similar properties assigning condition ratings of C1 to C6 for each home's overall condition. These come from the Fannie Mae ratings described in the appendix.

“A property's condition rating in an appraisal is especially important in comparison to the comparable properties against which it's being evaluated. In residential appraisals, condition ratings of C1 to C3 indicate well-maintained homes in good condition. Homes given condition ratings of C4 to C6 range from being adequately maintained to being seriously in need of repair and maintenance. An appraised home with a C2 rating, for instance, would be worth more than a comparable home with a C5 rating.”<sup>5</sup>

### Measuring Property Condition

Using residential sales data from Collateral Analytics that includes public records and private MLS records for over 1300 counties over a four year window, some 2 million records including typical physical attributes (living area in square feet, baths, bedrooms, etc.) for which property condition data was available we developed a set of standard hedonic regressions that explain a significant portion of selling price variation.

There are variables correlated with property condition, such as age or year since renovation which we refer to as effective age. One question we address below is to what extent these may be used as proxies for property condition. Here we will use two methods to estimate property condition.

The first estimation method for property condition is based on listing agent descriptors mined from millions of national U.S. MLS listing data to generate property condition ratings from C1 to C6 (Excellent to poor) and see how well they correlate with differences in property values. For example, for each listing there is a condition field which is usually filled out by the agent. The data was mined for text descriptors. Words like *outstanding*, *excellent* or *superlative* would receive a C1. When the condition field was not filled out but the additional comments provided a description of the property, then the adjectives were mined to generate a C1 to C6 rating. This process was followed for six categories of property condition, based on Fannie Mae descriptors in the appendix. This process allowed a comparison with appraisal ratings on residential samples.

The second method including over data on a total of 900,000 subject properties and corresponding single family comparable properties from appraisals, from 2011 through 2015 stratified geographically from all 50 states, was based on a condition field variable as reported on standard residential appraisal forms.<sup>6</sup> Here there is no interpretation but rather direct use of the property condition C1 to C6 variable with again with C1 as the best condition and C6 the worst. These results are compared below in Exhibit 1 below. The percentage of distribution for each category is shown in the right columns.

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<sup>5</sup> IBID, p.1.

<sup>6</sup> These included 1040, 1004C, 1025, 1073, 1075, and 2055 forms.

**Exhibit 1: US National Residential Property Condition Assessment Using Two Data Sources**

<b>Property Condition Rating</b>	<b>Agent Assessed MLS Based Percentage</b>	<b>Appraiser Assessed Percentage</b>
C1 Excellent	.2%	.5%
C2 Very Good	.9%	6.1%
C3 Good	34.6%	44.6%
C4 Average	60.5%	43.6%
C5 Fair	3.5%	4.6%
C6 Poor	.3%	.6%

What is remarkable about the comparative data in Exhibit 1 is that there is very little national level aggregate bias of agents estimating the property condition as higher than appraisers. One might expect some optimism by listing agents but they appear to be statistically very similar to the appraiser’s estimates with an even lower percentage of C1 and C2 (the highest ratings) than appraisers. Combining C3 and C4 (good and average respectively) for all agents’ results in 95.1% while appraisers and value analysts have a combined total of 88.2%. Keeping in mind that this estimate is relative to the local neighborhood, it is still a rather high percentage that are designated as good or average.

The conclusion is first that if an appraiser feels condition adjustments are needed for the high or low ratings, C1, C2, C5, and C6 respectively, then that group of properties requiring adjustments encompasses less than 12% of all residential property based on appraisal provided data and less than 5% of all residential property based on listing agent based ratings. Yet, in these cases the question remains: how much improvement is possible at estimating value with such data?

Digging deeper into the appraisal form, we find that the 1004 or 1004C forms tend to have slightly higher C4 ratings while all others show as mode at C3. This is shown in the Appendix in Exhibit A-1 where the C1-C6 ratings are further defined. In Exhibit A-2 we show the percentage of total ratings that are strictly C3 or C4 by Appraisal form.

In Exhibit 2A-D below we observe a few graphs of the distributions of these appraisal based ratings for selected states, California, Arizona, Texas, and New York. Most states look like the first three Exhibits below, 2A, 2B and 2C with nearly 65% of all condition ratings at average or good. When you drill down to a ZIP Code or a neighborhood these distributions become even more homogeneous for the most part. This suggests that condition adjustments are required in even fewer cases, less than 5% of the time) since the comps are, for the most part, in similar condition as the subject property if unbiased and selected from the same neighborhood. Still, if appraisal models want to narrow the range of errors on individual appraisals, property condition is relevant.<sup>7</sup>

<sup>7</sup> Valuation models missing condition information would have slightly fatter tails over a pool of properties and while the average error is likely neutral, the potential error on individual properties is slightly higher.

Exhibit 2A: California Distribution of Property Ratings

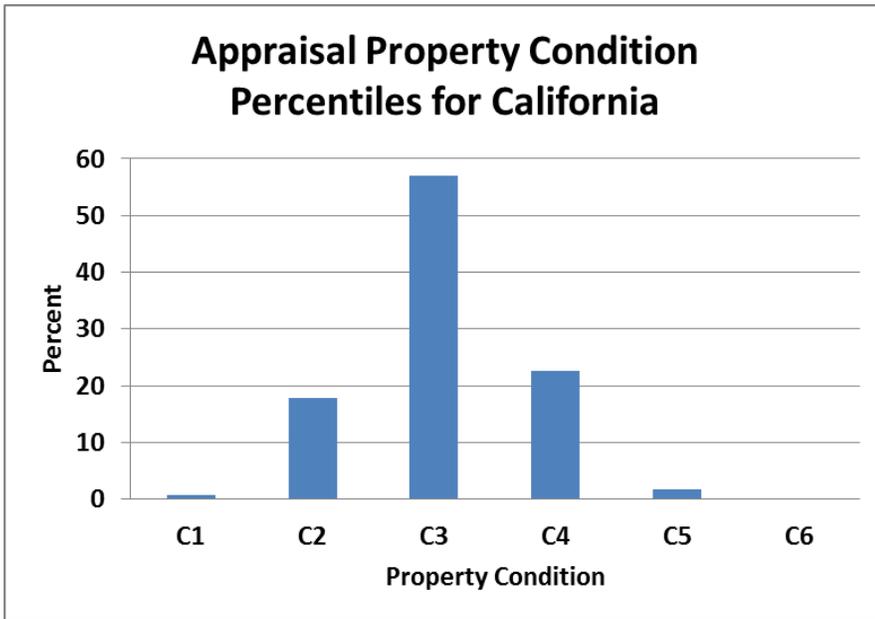


Exhibit 2B: Arizona Distribution of Property Ratings

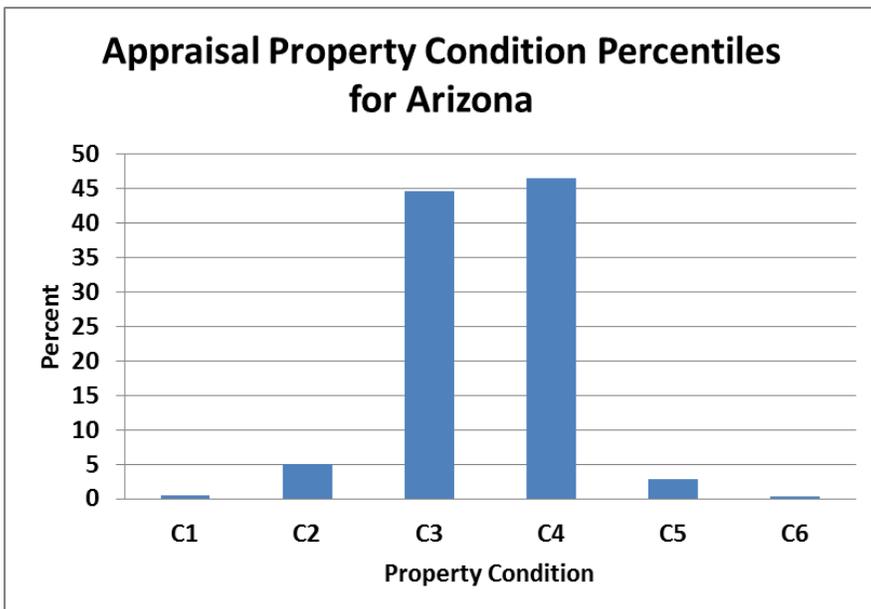


Exhibit 2C: Texas Distribution of Property Ratings

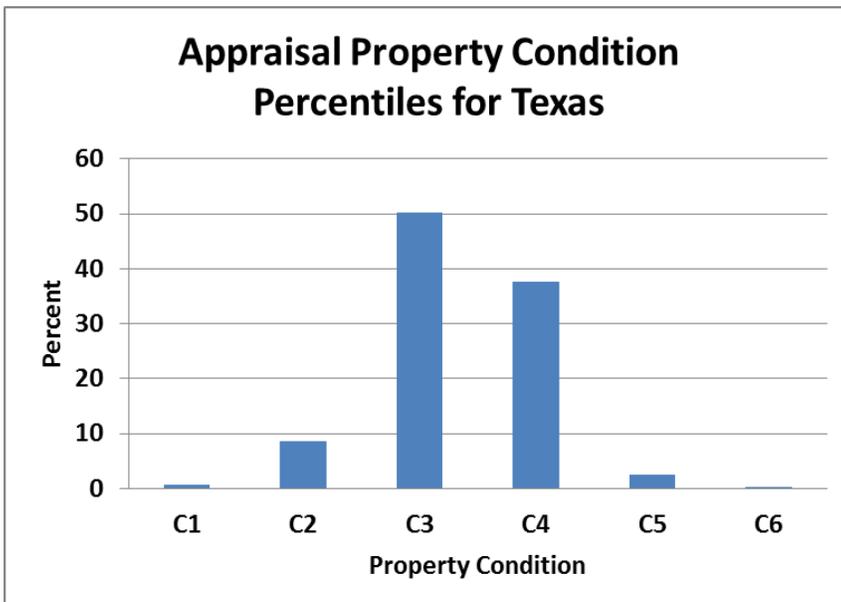
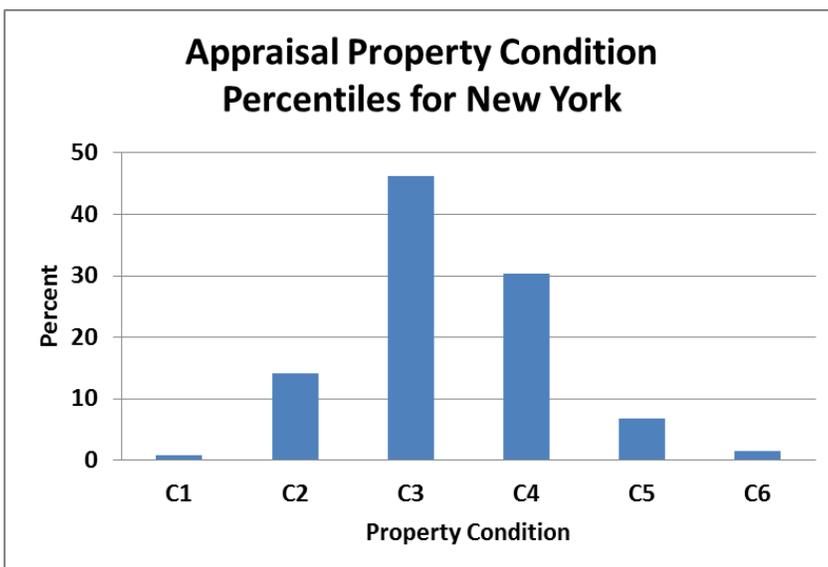


Exhibit 2D: New York Distribution of Property Ratings



### Prior Literature

There is very little literature upon which to build for this study as such data as we use here on property condition has never existed in widespread form before, and it took significant efforts to assemble the sample used here. But we have one relevant study which used property condition disclosure form data by Nanda and Ross, 2012, and a related study, Nanda, 2008 which examined 291 US metro areas from 1984 through 2004. The study found that the average seller may be able to fetch a higher price (about three to four percent) for the house if she furnishes a state-mandated seller's property condition disclosure statement to the buyer.

The theory is that disclosure reduces asymmetric information and uncertainty about the quality of what one is buying. The study did not examine the impact of various levels of condition as we do here.

While we have no parallel study from which to compare there is one classic and early study on housing quality by Kain and Quigley published in 1970. Kain and Quigley used various measures of quality indices and concluded that quality meant as much as quantity. Detailed data was collected on 1500 households in St. Louis based upon inspections of the properties. Data on condition was scaled from 1 (excellent) to 5 (requires replacement). Most of the quality measures proved to add to the explanatory power of the model explaining price. Age in particular was significant at the .01 level and age remains one of the variables that was available without inspection. Given the great breadth of the sample over an entire metropolitan market it would not be surprising to observe wide variations in age and quality. Yet, even in the Kain and Quigley study, 92% of the quality was loaded onto condition 2. Those properties in excellent condition received premiums of about 22% as expected, but were being compared to the entire metro, not just within a neighborhood. Those in need of replacement received significant discounts of about 16%.

In a more recent discussion, Guerra (2015) the author notes that appraisers must inspect property for condition and provide a rating as described below, and suggests that sometimes the ratings are too harsh or too lenient but does not provide any data to suggest the scale of the bias postulated. Here, for the first time we provide some information on the distributions on ratings. See Exhibits A-1 and A-2.

## II. How much does the property condition rating impact property value?

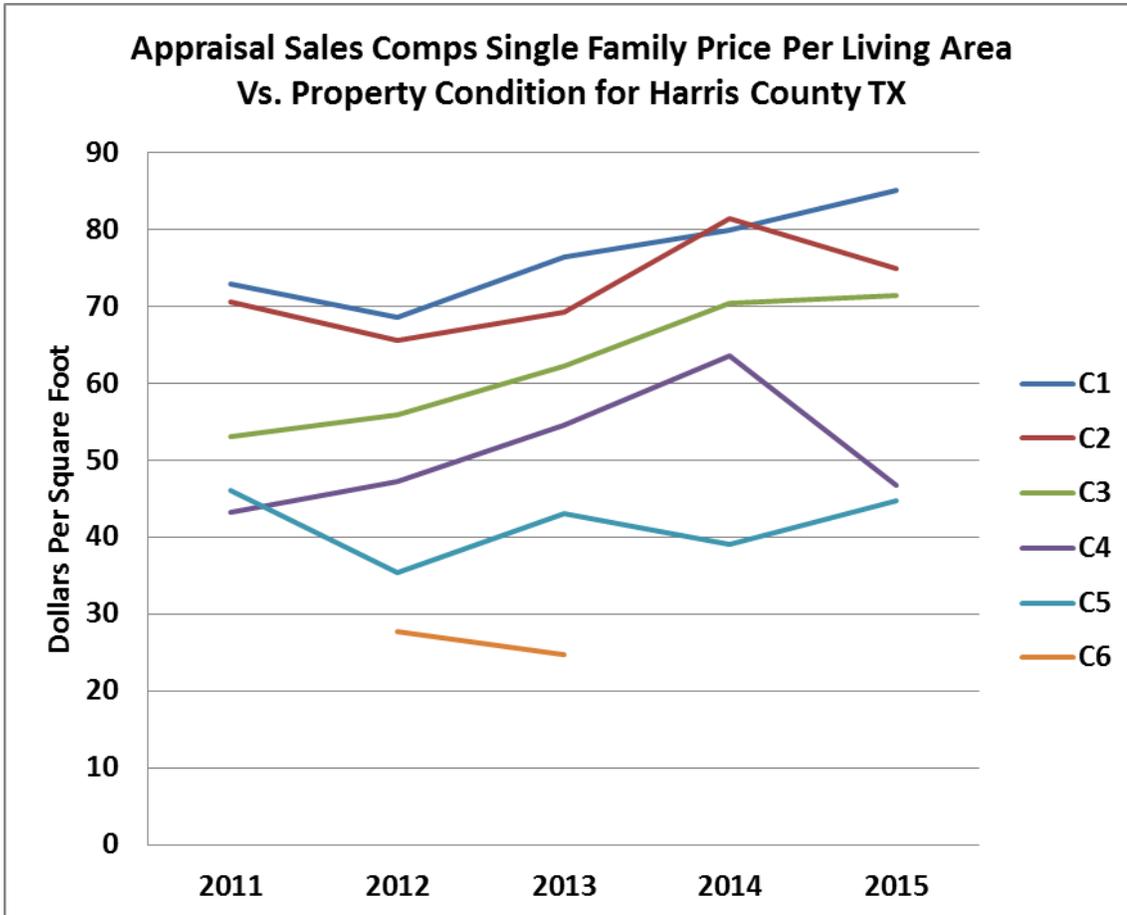
First, we will look at this at the county level and then drill down to the ZIP Code with descriptive statistics. Later, we will dive deeper into the hedonics. What is observed in Maricopa County, AZ is typical and shown in Exhibit 3A. We see a premium for C1 (excellent) of about 10% over average, although in stronger markets this premium can reach 20%. C2 and C3 seem clustered most of the time and show a modest premium of about 5% above average. C5 and C6 is usually below average, clustered again, and only a few percent below average. When markets turn down we observe quality driven price spreads. That is, we see more of a quality related price spread right after the market has turned down and is on its way up. Los Angeles, not shown, has almost an identical pattern and spread. Exhibit 3B shows the same graph as 3A but using Appraiser ratings over a shorter time period. We observe more variability and less consistency in the price per square foot when using these ratings, but the data is a smaller sample and has some noise.

Why is the price spread on condition greater when the market conditions are softer? During very brisk and strong markets when prices are often going up it seems that buyers spend less time on research and fear losing an opportunity to buy. Certainly the buyer to seller ratio is higher during such markets, versus declining markets. In soft markets, where prices may be declining, the ratio of buyers to sellers is greatly diminished. Without the fear of being outbid by a torrent of competitors, buyers seem to be able to spend more effort on what could be described as due diligence, scrutinizing property condition, asking for concessions and adjustments and just not being price takers. This would explain why we observe greater discounts on property that are rated lower (C6) relative to average property during softer markets.

Exhibit 3C shows a similar graph for Hillsborough, FL. Here one can observe a slightly larger spread but a clustering of the three bottom categories. C1 versus average could suggest a 50% premium, but when you



Exhibit 3B: Price Per Square Foot for Harris County, TX using appraiser ratings of property condition 2011-2015.



**Exhibit 3C: Price Per Square Foot for Hillsborough County, FL over 2000 through 2014 using agent based condition rating information**

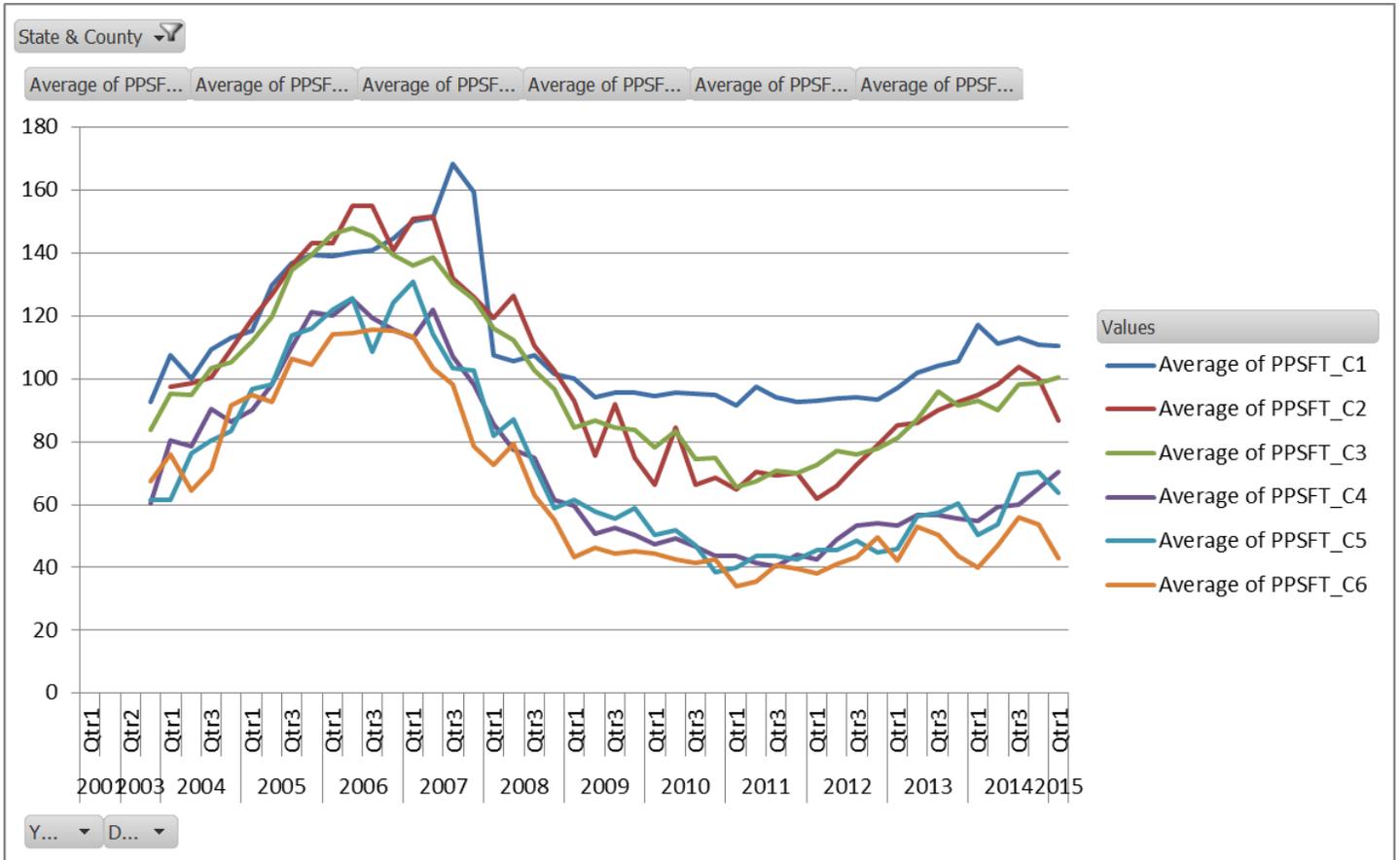
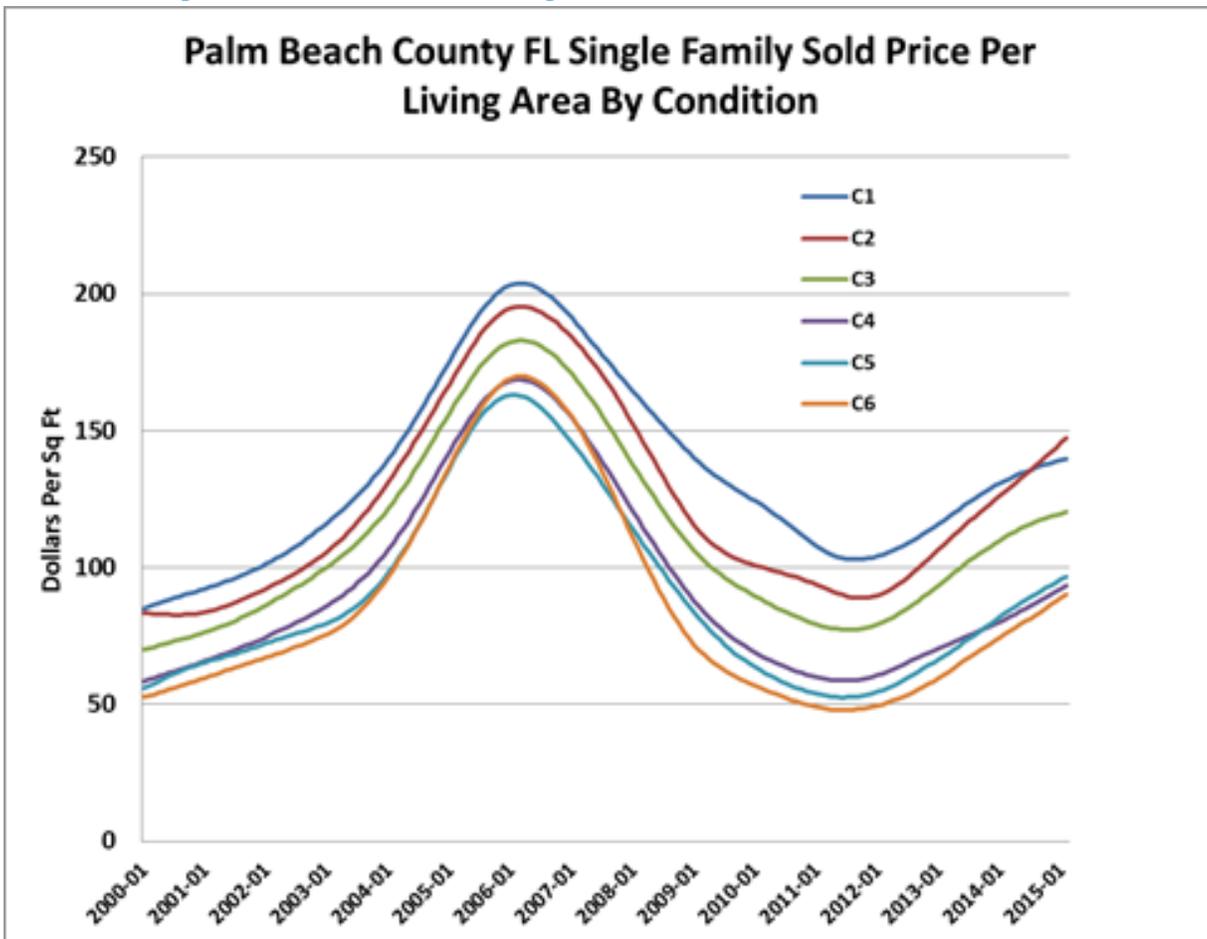


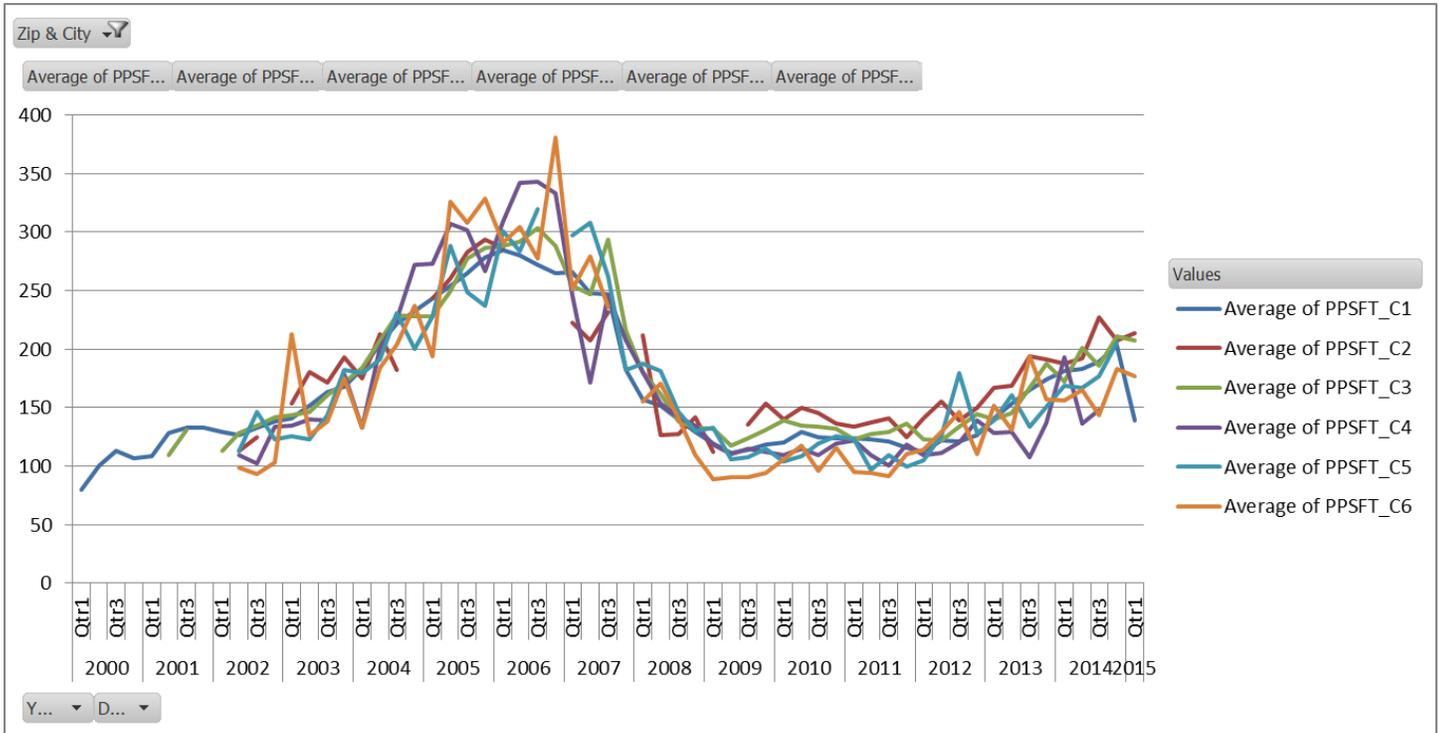
Exhibit 3D: Price Per Square Foot for Palm Beach County, FL over 2000 through 2014 Using Smoothed Trend with agent based condition rating information



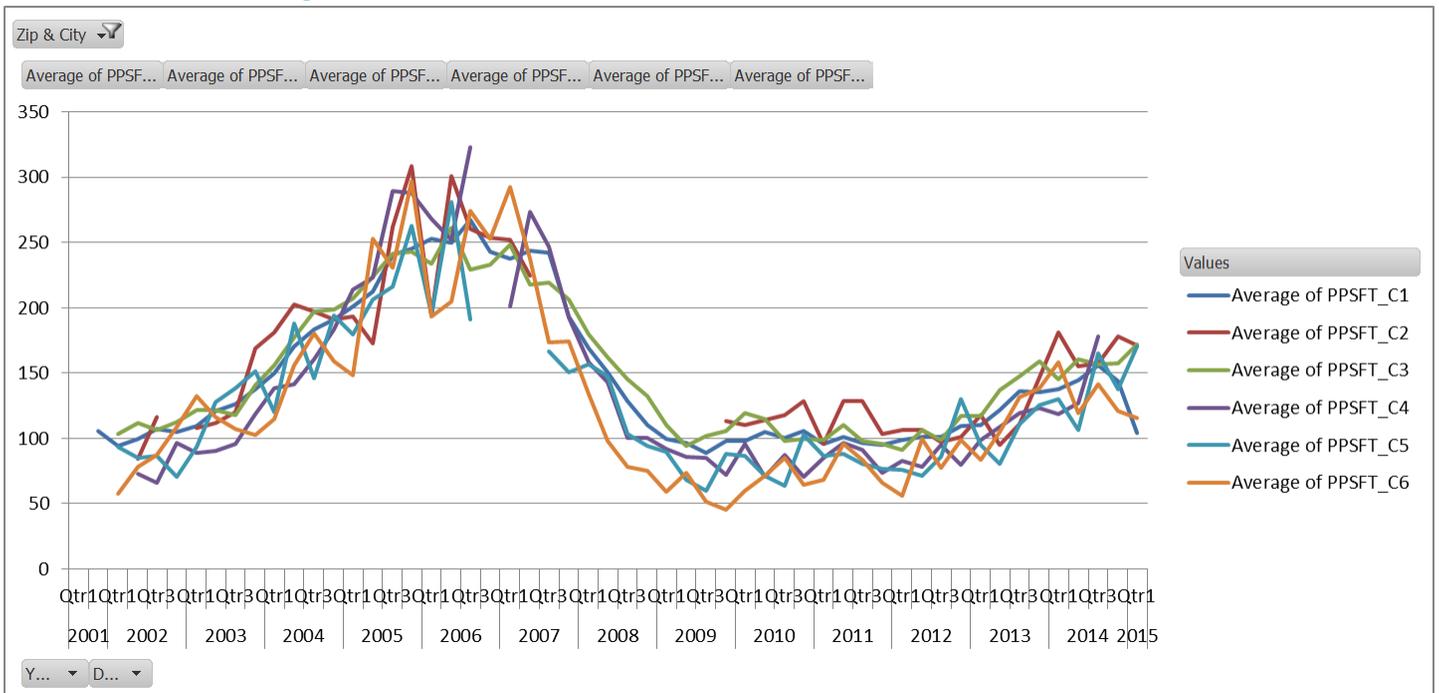
### Drilling Down to the ZIP Code Level

Exhibits 4A and 4B drill down to the ZIP Code level. With less data and smaller samples we observe more noise and less consistency between C1 through C6 rated sold prices per square foot. At the same time, there are some systematic differences in the prices paid and higher quality generally means higher prices.

**Exhibit 4A: Price Per Square Foot for Riverside CA, 92503 over 2000 through 2014 using agent based condition rating information**



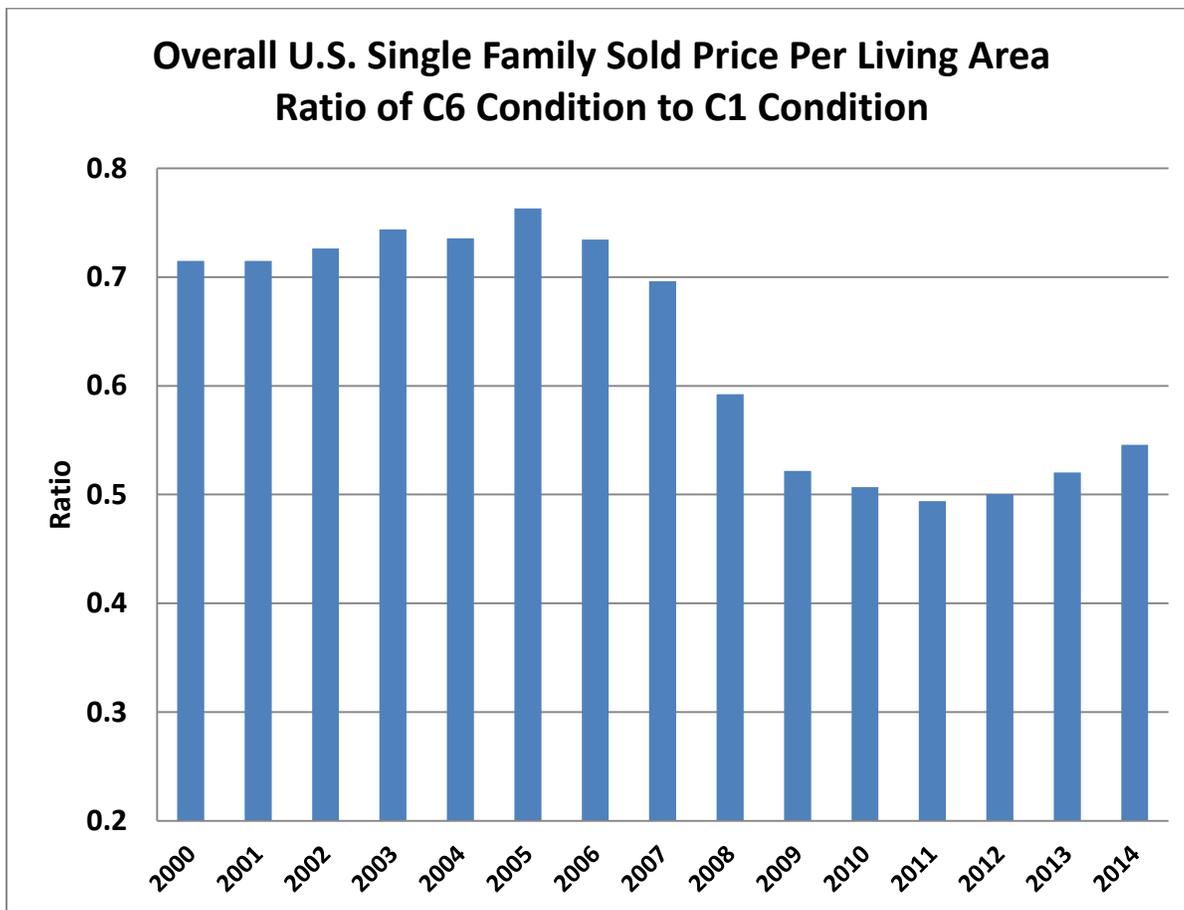
**Exhibit 4B: Price Per Square Foot for San Bernardino, CA 92407 over 2000 through 2014 using agent based condition rating information**



## Property Condition and Market Conditions Combined

In Exhibit 3A it is clear that the spread of prices paid for different property conditions differs over time. There are several ways to visualize the impact of market conditions on the spread for property condition rating. A simple one is shown below in Exhibit 5 using national US data. Here only the extreme property conditions are used and the ratio of the price paid for C6 to C1 (lowest to highest quality condition) is compared over time. The spread between C1 and C6 is smallest when prices are heading up and markets are strong. When market conditions soften we observe a larger spread in pricing as shown by the lower ratio (larger price spread) below for the period after 2008.

**Exhibit 5: Pricing of Price Spread by Condition Rating over Time using agent based condition rating information**



Another approach is to use market condition proxies and compared prices paid for different property ratings. Again, we will start with the national US price per square foot measured over time and under different market conditions. Market conditions are defined in seven categories based primarily on the months remaining inventory, MRI.<sup>8</sup> In addition to MRI, we consider the percentage of distressed sales, the sales price to list price ratio and the time on the market. Then these categories are used to produce a market condition indicator which can then be used to compare the spread of pricing for different property condition ratings

<sup>8</sup> MRI is based upon monthly sales rates divided into the current number of listings.

under various market conditions. Our hypothesis is that the price spread will narrow during stronger markets when prices are increasing and inventories are low, based on the results observed in Exhibit 4.

Hot	MRI<2
Strong	MRI =2-3
Good	MRI =3-5
Normal	MRI=6-9
Soft	MRI=9-10
Weak	MRI=11-12
Distressed	MRI>12

### III. More In-Depth Empirics on the Impact of Adding Property Condition to a Simple OLS Model Estimating Residential Property Value

Data was collected from over 1300 different US counties on residential sales during over 2012-2015 including 322,433 residential sales.<sup>9</sup> We ran several hedonic pricing models noting that we were not trying to perfect a full blown valuation model but rather explore and understand the benefits of property condition indicators along with age. The  $X$  variables include several physical attributes, the  $Y$  variables are location controls and the  $Z$  variables are time dummies. The model was run by county, denoted as  $c$ . The error term is  $e$  and  $\beta$  are regression coefficients based on log forms. The average  $R^2$  was .6547 for 1300 different counties. Most variables are obvious but effective age is year built or renovated, whichever is more recent.<sup>10</sup>

$$\ln(\text{Sales Price})_c = \beta_0 + \sum \beta X_i + \sum \beta Y_i + \sum \beta Z_i + e$$

Variable descriptive statistics are provided below:

<sup>9</sup> Source: Collateral Analytics

<sup>10</sup> Effective age was less than actual age in about 11% of the observations. 11% may be low since many property improvements go unreported. We did not do a separate comparison on how the valuation model performs with actual age instead of effective age, except that effective age works slightly better so we used only the better variable.

**Exhibit 6: Statistical Description of Summary Results for Key Variables for 1300 Counties With Property Condition**

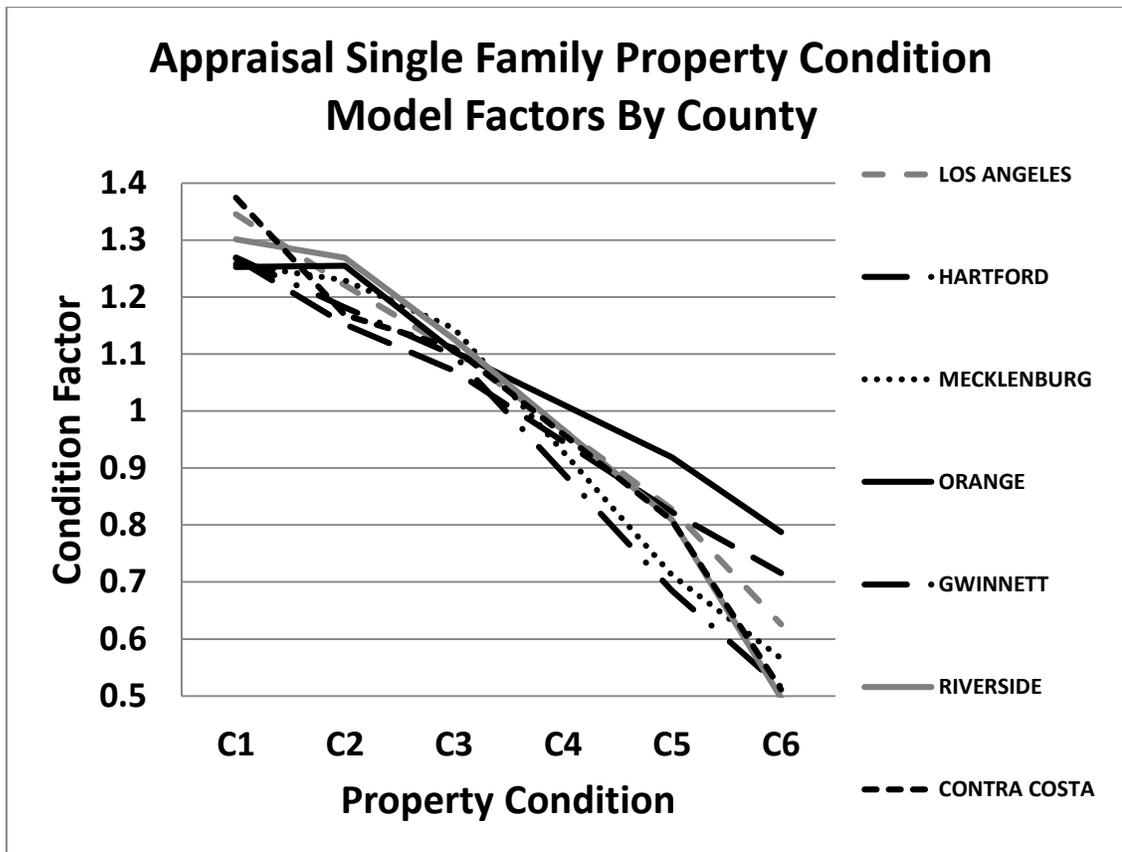
Variable	Mean	Standard Dev.	Max (30+ obs)	Min (30+obs)
R <sup>2</sup>	0.544912261	.153871	.87190	.25553
Average F-Test	39.6424			
Percentage of F-scores >4.0	85.8%			
Living Area	.000400678	0.00025	.00128	.000171
Baths	.095452961	.083369	1.4599	-.06850
Effective Age	-0.00710079	.002171	.03966	-.01220
REO Sale (Real estate owned sale)	-.043187100	.148869	.15323	-.22275
Time Period Sale Dummies	NA			
Construction	.257387	.248500	5.6494	.012339

**Exhibit 7: Statistical Description of Summary Results for Key Variables for 1300 Counties Without Property Condition**

Variable	Mean	Standard Dev	Max (30+ obs)	Min (30+obs)
R <sup>2</sup>	.65473	.14555	.88190	.25553
Average F-Test	42.4534			
Percentage of F-scores >4.0	90.5%			
Living Area	.000386	0.00024	.00128	.00017
Baths	.085798	.177881	1.2924	-.06733
Effective Age	-.00529	.005622	.04393	-.01520
REO Sale (Real estate owned sale)	-.05342	.229698	.14674	-.21079
Time Period Sale Dummies	NA			
C1 dummy	.24288	.281446	1.85264	-.30152
C2 dummy	.25387	.241873	1.21710	.027363
C3 dummy	.18378	.155837	1.21915	.020053
C4	NA			
C5 dummy	-.41477	.290413	1.24190	-.728531
C6 dummy	-.79974	.493944	.870662	-2.47315
Construction	.234738	.203537	4.75215	.015530

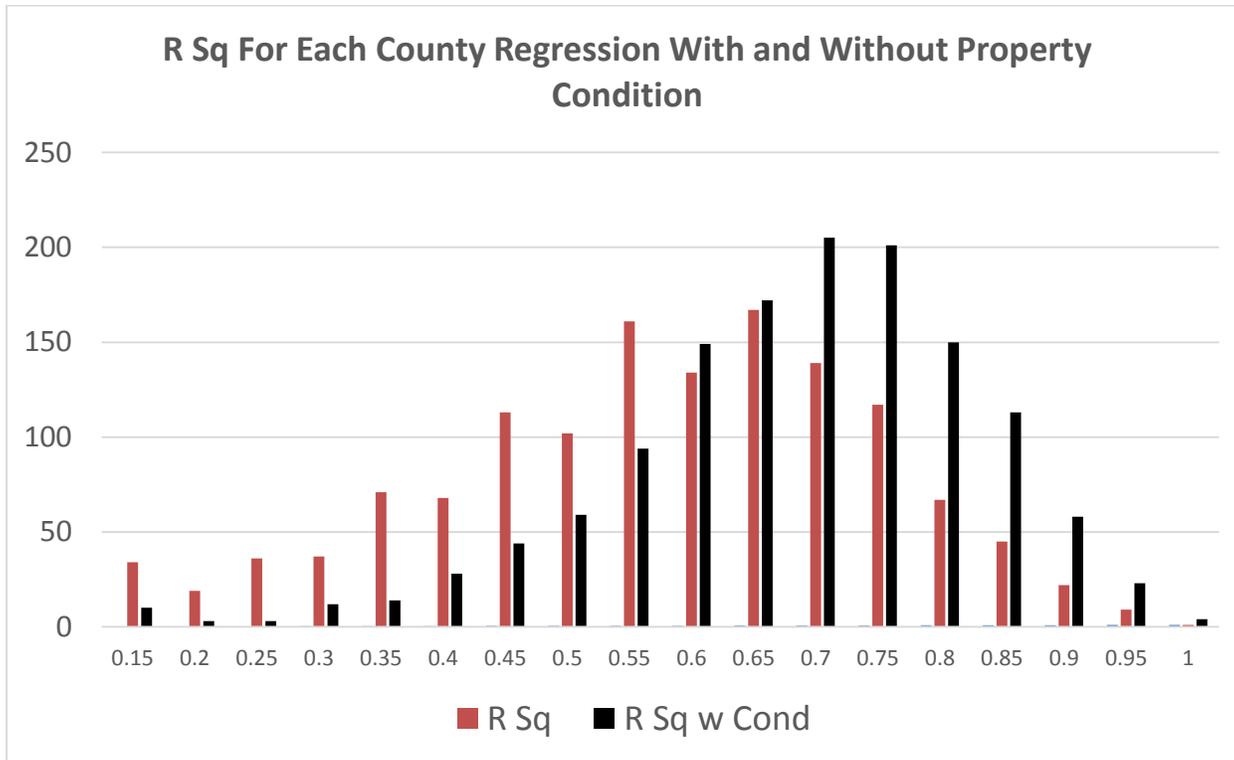
The vast majority of all the models were highly significant for each county. However, we find the average R Sq and the overall significance is stronger when property condition is included. Some general results are show in the table below, Exhibit 8 for several typical county samples, followed by a histogram of our entire 1300 plus county sample results.

**Exhibit 8: Impact of Property Condition Variable on Value Estimate**



Overall results: The vast majority of all the models were highly significant for each county. However, we find the average R Sq and the overall significance is stronger when property condition is included, .65 versus .54. A histogram of our entire 1300 plus county sample results, with and without condition, is shown in Exhibit 9 below. It is not possible to show 1300 graphs and or regression results, but we observe that property condition while correlated with age, still adds additional explanatory value. The conclusion is that property condition can add value to a model estimating selling price and reduce estimate error.

**Exhibit 9: Histogram of R Square Regression Results for All Counties With and Without the Property Condition Variable**



#### IV. Conclusions

In any given neighborhood of a subject property being appraised, there is often no need to adjust comparable properties for property condition since most of the properties are often similar in vintage and similar in condition as the subject property. Some 90% of all properties will be rated as good or average by both property agents and appraisers. In cases where comps must be selected outside of the neighborhood or outside the vintage range of the subject property, an adjustment may be needed for property condition. Age and property condition are correlated but both variables together do a better job of estimating selling price than if age is used alone.<sup>11</sup> Using new data mining techniques and past appraisal reports on property condition has proven to be fruitful for improving accuracy based on the research presented here.

In regard to data from the MLS and past appraisals, listing agent information on property condition works better than expected and at least as well as prior appraisal report data. Larger adjustments are required for known differences in property condition when markets are weak.

Future research will require more accurate ways to evaluate property condition and consider both absolute and relative measurements possibilities. Future research might also be able to reverse engineer and estimate property condition on a property when unknown. Forecasting property condition and comparing to default risks may also prove valuable to mortgage lenders.

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<sup>11</sup> For the purposes of appraising a portfolio of properties with samples of 30 or more, the average value estimate would not benefit from property condition adjustments as long as age or effective age is known. But when individual value estimates are required then in about 5% to 7% of the cases, a property condition adjustment may be warranted.

## References

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HUD Single Family Policy Handbook, 2014, see [http://portal.hud.gov/hudportal/documents/huddoc?id=SFH\\_POLI\\_APPR\\_PROP.pdf](http://portal.hud.gov/hudportal/documents/huddoc?id=SFH_POLI_APPR_PROP.pdf)

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Nanda, A. and S. Ross "The Impact of Property Condition Disclosure Laws on Housing Prices: Evidence from an Event Study using Propensity Scores" University of Connecticut, Economics Working Paper, 9-1-2008. See [http://digitalcommons.uconn.edu/cgi/viewcontent.cgi?article=1378&context=econ\\_wpapers](http://digitalcommons.uconn.edu/cgi/viewcontent.cgi?article=1378&context=econ_wpapers)

Nanda, A. and S. Ross "The Impact of Property Condition Disclosure Laws on Housing Prices: Evidence from an Event Study Using Propensity Scores". 2012. *The Journal of Real Estate Finance and Economics*, 45:1, 88-109.

Washburn, Robert M., "Residential Real Estate Condition Disclosure Legislation" DePaul Law Review, Volume 44, Issue 2, Winter, 1995 Article 3

## Appendix

From the Fannie Mae Property Condition Report:

<https://www.fanniemae.com/content/guide/selling/b4/1.3/06.html>

### Property Condition Ratings

For appraisals required to be completed with the UAD, the appraiser must assign one of the following standardized Condition ratings in the table below when identifying the condition of the improvements for the subject property and comparable sales.

Rating	Description
C1	<p>The improvements have been very recently constructed and have not previously been occupied. The entire structure and all components are new and the dwelling features no physical depreciation.</p> <p><b>Note:</b> <i>Newly constructed improvements that feature recycled materials and/or components can be considered new dwellings provided that the dwelling is placed on a 100 percent new foundation and the recycled materials and the recycled components have been rehabilitated/re-manufactured into like-new condition. Improvements that have not been previously occupied are not considered “new” if they have any significant physical depreciation (that is, newly constructed dwellings that have been vacant for an extended period of time without adequate maintenance or upkeep).</i></p>
C2	<p>The improvements feature no deferred maintenance, little or no physical depreciation, and require no repairs. Virtually all building components are new or have been recently repaired, refinished, or rehabilitated. All outdated components and finishes have been updated and/or replaced with components that meet current standards. Dwellings in this category either are almost new or have been recently completely renovated and are similar in condition to new construction.</p> <p><b>Note:</b> <i>The improvements represent a relatively new property that is well-maintained with no deferred maintenance and little or no physical depreciation, or an older property that has been recently completely renovated.</i></p>
C3	<p>The improvements are well-maintained and feature limited physical depreciation due to normal wear and tear. Some components, but not every major building component, may be updated or recently rehabilitated. The structure has been well-maintained.</p> <p><b>Note:</b> <i>The improvement is in its first-cycle of replacing short-lived building components (appliances, floor coverings, HVAC, etc.) and is being well-maintained. Its estimated effective</i></p>

Rating	Description
	<p><i>age is less than its actual age. It also may reflect a property in which the majority of short-lived building components have been replaced but not to the level of a complete renovation.</i></p>
C4	<p>The improvements feature some minor deferred maintenance and physical deterioration due to normal wear and tear. The dwelling has been adequately maintained and requires only minimal repairs to building components/mechanical systems and cosmetic repairs. All major building components have been adequately maintained and are functionally adequate.</p> <p><b>Note:</b> <i>The estimated effective age may be close to or equal to its actual age. It reflects a property in which some of the short-lived building components have been replaced, and some short-lived building components are at or near the end of their physical life expectancy; however, they still function adequately. Most minor repairs have been addressed on an ongoing basis resulting in an adequately maintained property.</i></p>
C5	<p>The improvements feature obvious deferred maintenance and are in need of some significant repairs. Some building components need repairs, rehabilitation, or updating. The functional utility and overall livability are somewhat diminished due to condition, but the dwelling remains useable and functional as a residence.</p> <p><b>Note:</b> <i>Some significant repairs are needed to the improvements due to the lack of adequate maintenance. It reflects a property in which many of its short-lived building components are at the end of or have exceeded their physical life expectancy, but remain functional.</i></p>
C6	<p>The improvements have substantial damage or deferred maintenance with deficiencies or defects that are severe enough to affect the safety, soundness, or structural integrity of the improvements. The improvements are in need of substantial repairs and rehabilitation, including many or most major components.</p> <p><b>Note:</b> <i>Substantial repairs are needed to the improvements due to the lack of adequate maintenance or property damage. It reflects a property with conditions severe enough to affect the safety, soundness, or structural integrity of the improvements.</i></p>

### Quality of Construction Rating

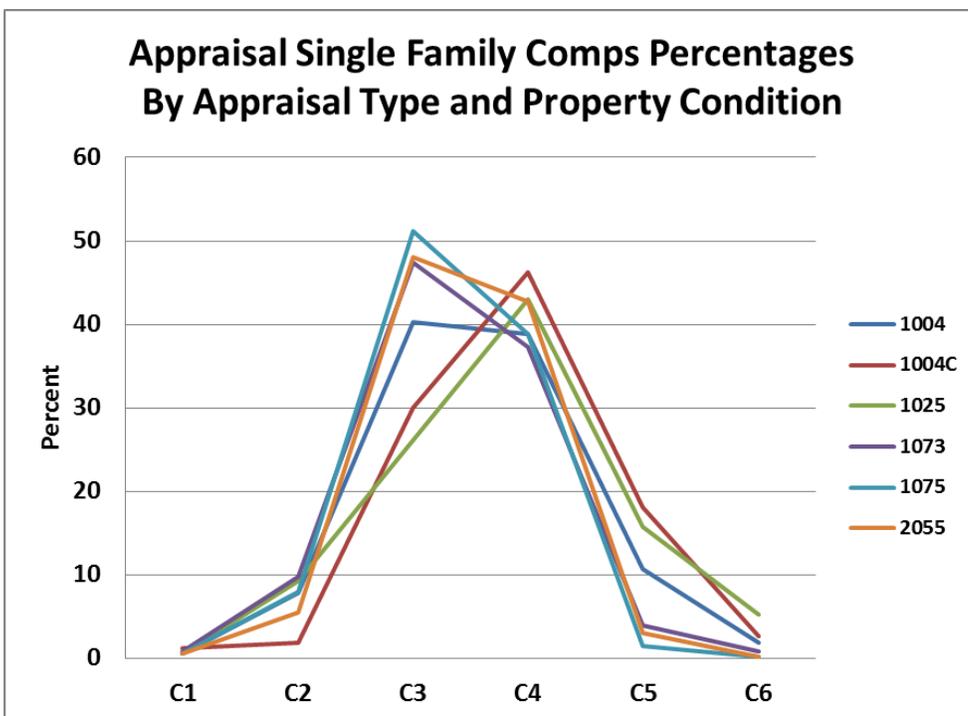
For appraisals required to be completed using the UAD, the appraiser must assign one of the following standardized quality ratings in the table below when identifying the quality of construction for the subject property and comparable sales.

Rating	Description
Q1	Dwellings with this quality rating are usually unique structures that are individually designed by an architect for a specified user. Such residences typically are constructed from detailed architectural plans and specifications and feature an exceptionally high level of workmanship and exceptionally high-grade materials throughout the interior and exterior of the structure. The design features exceptionally high quality exterior refinements and ornamentation, and exceptionally high-quality interior refinements. The workmanship, materials, and finishes throughout the dwelling are of exceptionally high quality.
Q2	Dwellings with this quality rating are often custom designed for construction on an individual property owner’s site. However, dwellings in this quality grade are also found in high-quality tract developments featuring residences constructed from individual plans or from highly modified or upgraded plans. The design features detailed, high-quality exterior ornamentation, high-quality interior refinements, and detail. The workmanship, materials, and finishes throughout the dwelling are generally of high or very high quality.
Q3	Dwellings with this quality rating are residences of higher quality built from individual or readily available designer plans in above-standard residential tract developments or on an individual property owner’s site. The design includes significant exterior ornamentation and interiors that are well finished. The workmanship exceeds acceptable standards and many materials and finishes throughout the dwelling have been upgraded from “stock” standards.
Q4	Dwellings with this quality rating meet or exceed the requirements of applicable building codes. Standard or modified standard building plans are utilized and the design includes adequate fenestration and some exterior ornamentation and interior refinements. Materials, workmanship, finish, and equipment are of stock or builder grade and may feature some upgrades.
Q5	Dwellings with this quality rating feature economy of construction and basic functionality as main considerations. Such dwellings feature a plain design using readily available or basic floor plans featuring minimal fenestration and basic finishes with minimal exterior ornamentation and limited interior detail. These dwellings meet minimum building codes and are constructed with inexpensive, stock materials with limited refinements and upgrades.
Q6	Dwellings with this quality rating are of basic quality and lower cost; some may not be suitable for year-round occupancy. Such dwellings are often built with simple plans or without plans, often utilizing the lowest quality building materials. Such dwellings are often built or expanded by persons who are professionally unskilled or possess only minimal construction skills. Electrical, plumbing, and other mechanical systems and equipment may be minimal or

Rating	Description
	nonexistent. Older dwellings may feature one or more substandard or nonconforming additions to the original structure.

**Exhibit A-1: Distribution of Single Family Property Condition Ratings By Appraisal Form or Addendum**

Data: Approximately 700,000 Observations for the US Covering all 50 States, 2011-2015.



**Exhibit A-2: Percent C3 or C4 of Single Family Property Condition Ratings By Appraisal Form or Addendum**

Data: Approximately 700,000 Observations for the US Covering all 50 States, 2011-2015.

