

Ways to Pass an Appraisal Review

By Barry J. Alperin, MAI, ASA

During recent seminars entitled “Appraisers in Deposition” members of the audiences asked if there was something they could do to avoid such testimony as an unpaid percipient witness. Of course there is no magic method to avoid being called upon to testify. But there are some things an appraiser can do to pass through the review process.

Appraisers in all levels of practice want their work to be accepted. One possible measure of acceptance is a positive appraisal review. Just as there are many appraisal disciplines, there are many types of reviews. For the purposes of this article attaining acceptance in a review can be treated categorically. In its least complex form, the review measures an appraisal on an accept or reject basis. So if the measure of acceptance is so categorically simple, why is achieving the objective elusive?

Appraisals may be reviewed by laypersons, professionals, forensic experts, attorneys, auditors, accountants, the government, the public, investors, clerks, executives, screening software, professional societies, peer groups and/or the media. Appraisal reviews can be categorized in many ways. So how can this article dare to suggest that acceptance (or rejection) can be attained by (result from) a few simple actions? Consider that the path to acceptance may fall within three reporting options: 1) Minimize, 2) Sanitize/Homogenize or 3) Maximize.

How can attaining acceptance of an appraisal be reduced to three generic paths? First most simply put an appraisal is the act or process of developing and communicating an opinion of value. With similar simplicity a review is the act or process of developing and communicating an opinion about the quality of another appraiser’s work. A minimalist would say the review processes an opinion about another (opinion sic). One who maximizes would do the same; but along the way would define the problem, identify the intended use(s), set a scope, check, cross check and a hundred other subsets of: acts, processes and communications. Both the appraiser and the reviewer (terms used in their loosest interpretation) are subject to myriad of standards, rules, methods, applications, relationship pressures, communication styles and productivity constraints.

During more than thirty years of appraisal reviews I have observed similarity in some of the presentations of both extraordinarily good and particularly bad appraisals. Some of those reviews involved complex property appraisals across the United States in very large value opinions. Others were low priced residential form reports. They involved reports reviewed for lenders, regulators, law firms and the courts. In some fraudulent appraisals the reports fallaciously claimed to have involved a comprehensive scope of work, which upon review were not. Great appraisals exemplify their scope of work.

Neither the type of reporting format used, or the intended use, requires a particular intensity in scope. Mediocre appraisals often profess to have been completed to a standard of excellence.

So why do the best and worst have similarities in three reporting options (not USPAP) described here? Part the answer is because length of the report is not a determinant of acceptability. In the years following the savings and loan (S&L) crisis bulk was one the measures of appraisal reports. In various periods of paranoia, lists of politically correct language (forbidden labels and/or actions) emerged. In the year since the advent of UAD (Uniform Appraisal Data Set), conformity has become a measure. While the particular check-lists utilized in all levels of appraisal review may change over time the choices between 1) Minimize, 2) Sanitize/Homogenize or 3) Maximize have been an unspoken (not fully recognized) constant through the years.

The following illustrations are common to both acceptable and unacceptable appraisals reviewed in the last thirty years. Examine how acceptable and rejectable can look alike in each option regarding verification.

Sample Verification

Minimize

“Verified”

“All of the sales were verified with a party to the transaction, where possible”

“Sale # 1 was confirmed Mr. X of XYZ Brokers on 12/31/20XX at 3:25 PM at (312) 555-5555.”

Sanitize / Homogenize

Maximize

In some instances the differences between acceptable and unacceptable may be imperceptible without a forensic (very intense investigative) review. In some instances the difference may lie in the veracity of the statement. Consider these additional examples of data source citations:

Sample Data Source

Minimize

“Public Records”

Sanitize / Homogenize

“Document #1234”

Maximize

“Document #1234
Recorded 12/31/20XX by ABCD, Grantor to XYZ Corp., Grantee, Transfer Tax \$XX:XX 12 pages in the addenda”

All of the examples can be acceptable. However, each of them may be unacceptable in some circumstance. The definition of the appraisal problem, scope of work and intended use may not require a particular level of documentation. Credibility is not a function of the number of words (length). Appraisers at all levels of reporting can produce an evidentiary trail of the appraisal process introduced by George Dell, ASA, SRA & MAI at the ASA International Conference in 2009 called "Auditable Appraisal Best Practices". Key components of the concept are that all appraisals can be, and should be: 1) reproducible, 2) capable of being rated for reliability, and 3) maximizing of the precision, given the available data.

In the context of auditable appraisals three questions may be posed: 1) At any level of review can the reviewer reproduce the appraiser's factual data, reasoning and conclusions? 2) At any level of review can the reviewer evaluate the reliability of the procedures (models) used and logic of the conclusions? and 3) At any level of review can the reviewer determine the accuracy of the data selection, analyses in every step of process through the reporting process?

The examples above could all be factual. Depending on the level of review public records may be available and scrutinized by the reviewer. The examples above could either lead to an adjustment or no adjustment in a step in the valuation process. Would the same adjustment and/or conclusion have been reached if "Document #1234" was one of three, #1233, #1234 and #1235? The examples above could all result in the same conclusions. Would it matter if the grantor and grantee in each of those documents had identical business addresses? Would it be helpful if an appraiser considered such matters and presented a discernible record of such investigations at each appropriate level of reporting?

Don't confuse these examples, or use of these three reporting options, with those terms that have become pass-words for bidding engagements (an unintended consequence of USPAP 2-2). The suggestion here is that within the scope of any engagement there is an appropriate expose of the problem definition, data, analyses and conclusions. A transparent display of the thinking and data should be a key objective in writing each section of the appraisal. A reader should never ask "what is missing here?" Nothing drives reviewers to deep investigation and subsequent critique more than a suspicion that there is, or may be: deceit, use of misleading euphemisms, obfuscation by understatement or failure to disclose.

There is no magic way to write a bullet proof appraisal report. USPAP even states "...perfection is impossible ..." four times. In his book, *Appraisal Report Review*, Roger Durkin, ASA ARM Chair spends three chapters on suggestions. He suggests there are three basic pillars in review (and therefore writing appraisals). Durkin cites: 1) credibility, 2) standards, and 3) logic. In this book, many standards are listed (not just

USPAP). In the same way the three methods suggested here are not limited to a particular type of appraisal or reporting format.

At the ASA International Conference ways to get through a review will be presented as part of Session 3 (Reviews) in Phoenix, Arizona on October 10, 2012.

About the Author

Barry J. Alperin, MAI, ASA has been involved in real estate appraisal and consulting continuously since 1969. Appraisals and reviews have been conducted in twenty states, Canada and the Virgin Islands. Position responsibilities have included: all phases of management, direction and origination of policies and procedures, litigation support, feasibility and marketability studies, design and implementation of data systems, real estate owned (REO) and construction work-outs. Appraisal and evaluation assignments have included individual and multiple locational properties with values up to \$2.5 Billion. Major appraisals have included multiple discipline assignments valuing tangibles and intangibles, such as machinery and equipment, and financial interests. Special purpose and contaminated properties have been appraised in all economic cycles. Direct experience in appraising all property categories across the United States. Consistently acknowledged as an author of appraisals at the leading edge of regulatory compliance. Mr. Alperin was last published by ASA in Valuation 2000 Papers. He can be reached for further contact at Barry-Alperin@MSN.com.