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You just can't make this stuff up: The commercial markets have woken up in most places

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Commercial markets have woken up in most places. Most brokers, lenders, investors and observers of the scene judge that 2013 was a good year. A gathering consensus of a positive trend from conditions of the past several years is evident. Most forecasters believe that the rest of 2014 will show positive when all is said and done, barring anything unexpected. No storm clouds of any consequence showing.

Commercial appraisers are in general happy, if indeed that is a term that can be applied to appraisers. There is some transaction volume, even in outlying, rural areas, and appraisers can be at least deemed satisfied when there are a reasonable amount of comparable data out there. It tends to make the job easier.

Lenders are more active in most markets. Lending transactions are the bread and butter of many commercial appraisal practices. After a strong first half in 2013, residential appraisal activity slowed down, whether due to higher rates, market seasonality, both, neither, or due to some other factors, but commercial appraisal activity for lending represented a strength in 2013. This should continue into 2014.

As a consequence of the crash and the protracted real estate depression, real estate appraisal practice- always tightly regulated - is even more so, particularly on the residential side. But the commercial side for lending transactions is also under scrutiny and will continue to be going forward.

A surprisingly large number of "eyes" focus on a "bank" appraisal. There is a good deal of analysis and review of each commercial report. Once an appraisal a leaves an appraiser's office and goes into the bank, it's only the beginning of a process to vet the work and ensure that it is accurate and acceptable. Beyond the normal required lender diligence, other eyes may not be entirely knowledgeable about the local market and often not very sympathetic about the appraiser's problems, whether they are related to the fee, turnaround, access to information, or lack of market data. It might even be lender pressure (this has not gone away, it's just morphed).

Knowing that appraisal reports are being strongly scrutinized at many levels, what should appraisers do to avoid adverse results?

Recent changes to USPAP reporting options eliminated summary and self contained reports. The responsibility to provide a meaningful level of detail to meet the requirements of the intended use is unchanged, however. It is more important than ever to keep in mind that different intended uses require different levels of disclosure and detail. It's an element of competency to know and understand the requirements of the intended use and to carry those out both in developing and reporting the appraisal.

Familiarity with USPAP (the minimum) and with the Interagency Guidelines of 2010 is essential. The Guidelines require "sufficient" detail for the institution to engage in the transaction. The detail has a lot to do with the complexity of the property, the assignment, and the transaction.

Don't let the client drive reporting. Appraisers will do themselves and their clients a great favor to be engaged to undertake sufficient development and reporting to meet the requirements of the intended use.

Be diligent in reporting scope of work issues. Be clear in saying what was done, what wasn't done, and why. Sometimes the latter is more important than the former.

Disclose, support and explain. Support is rarely mathematically or statistically definitive. When it's not, persuasive logical argument will have to do.

Areas often found to be deficient include: inadequate or irrelevant market analysis, contradictory information about the subject, market, and comparable data, inadequate (often cursory), highest and best use analysis, poor comparable data, inadequate support and explanation of adjustments to comparables, insufficient or irrelevant support for cap rates, vacancy, inadequate or non existent analysis of subject operating data, prior sales, or listing history, and reports that are poorly written. (See below paragraph for possible rewrite.)

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In this environment, the expectation is that appraisals need to present logical arguments, relevant data, and value opinions that are supported by the former. This stuff can't be made up: the stakes are too high!

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