



CELEBRATING
55 YEARS

nerej

Even the small things matter within an appraisal report

January 06, 2010 - Appraisal & Consulting

An appraisal report is a beautifully designed document that communicates the information needed to demonstrate the research and analysis necessary for a creditable appraisal. We should assume that each report will be reviewed by another qualified appraiser at some point in its life. Appraisals have lives that can extend beyond the five years we are required to retain them.

We are required to know the market and that includes correctly identifying if market conditions are declining, stable or increasing. They have a ripple effect that impacts a number of other analyses within the appraisal such as how dated a sale is and the need for market condition adjustments.

Reviewers use public data sources to get an idea of what has been happening in a local market. If the sources show a measurable decline and the report identified the market as stable a reviewer would reasonably question that conclusion. If the subject market is unique and does not conform to the zip code it is located in the appraiser needs to point this out and provide support for their conclusion such as year to year MLS statistics or sales and resales in the neighborhood that support the conclusion of market conditions. Public websites showing year to year market statistics can be found at www.MBREA.org.

The top of the second page in the 1004 form requires an absorption analysis showing the number of sales in the past year and the number of listings. Dividing the listings by the sales will indicate how long it will take to absorb the current inventory. For example ten current listings and five sales in the past year indicate a two year supply which would be a sign of an oversupply and a declining market. The 1004 form requires an analysis of the listing history of the subject. Generally an expired listing indicates the market would not pay the asking price within the time it was listed. If the market is stable the property should not have gone up in value. If the appraiser knows why a property would appraise for or above the listing price that reason should be discussed in the report.

The same situation exists with a prior sale. If the market is stable and there has been no remodeling or improvements the property should not be worth more than the prior sale indicated. The Uniform Standards of Professional Appraisal Practice and Fannie Mae require that we not only report a prior sale that occurred in the past three years but that we also analyze it. Analysis includes do we think it was arms length when it occurred and how changes in condition and market conditions since the sale would impact the value now.

The Competency section of USPAP requires an appraiser to have familiarity with a market or geographic area they have accepted an assignment in. If the appraiser is not able to correctly identify if the market is declining, stable or increasing they are indicating that they are not knowledgeable about the market conditions impacting a property and should not have accepted the assignment.

There are times when a client only wants the appraiser to indicate that a market is stable or today

they may only expect to see the market indicated as declining. When an appraiser satisfies this expectation particularly when they know it is incorrect they are reporting a predetermined opinion or conclusion and are communicating the results with the intent to mislead. The conduct section of the ethics rule precludes an appraiser from communicating a report that favors the cause of a client or that they know to be misleading.

Steven Spangle, SRA, MRA, is president of Spangle Associates, Auburn, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540