nerej CELEBRATING 55 YEARS

How to deal with the difficult appraisal client

March 10, 2010 - Financial Digest

Tough economic times can bring out the worst in people, especially when expectations are not met. We recently had to deal with a client who was very disappointed in the property value that was developed in our appraisal. The first clue that this client may be difficult came when we negotiated the contract.

The original contract we sent included a fee structure whereby a 50% deposit was required before work commenced with the remaining 50% due upon delivery of the report. The client countered with 50% before, 25% upon delivery and 25% upon the final approval of the report. We replied that such a payment schedule violated our professional appraisal ethics in that the fee was contingent on a value outcome such that if the value conclusion was not approved by the client then the final 25% was not paid. We finlly agreed on 50% prior to the commencement of the assignment, 25% due upon delivery of the report, and the remaining 25% upon final approval by the client with respect to the accuracy of the report's information about the property but not with respect to any value conclusions, which approval, or identification of any inaccuracies, will occur no later than 30 days from the date of receipt of the report.

So far so good. The subject included a very large land parcel. The client made the 50% deposit, the appraisal process commenced, the inspection conducted, comparable sales researched and analyzed, the report written and delivered. The next payment of 25% was made. Then the problems began. After numerous and frustrating e-mails that didn't resolve the issues we had telephone contact.

"Your appraisal doesn't meet the straight face test. Developers have told me that the property is worth twice what you valued it for. Even Sotherby's gave me a value that far exceeds your value. In fact a very similar property right down the street is listed for three, four times what you say my property is worth," my client complained.

"When did you speak to the developer and Sotherby's?" I asked.

"Two years ago. It doesn't make sense that the property has lost half its value in two years."

"Two years ago the real estate market was entirely different. Developers were actively looking for land to develop. These players are no longer in the market willing to pay 2007 prices for developable land. Today, if any developer is looking for land, he or she is looking for a bargain," I retorted. My reply fell on deaf ears.

We tried to explain that in the last two years the unemployment rates has more than doubled, lending criteria has tightened, new development is at a standstill, the number of building permits has plummeted, that bankruptcies have increased several fold, that real estate foreclosures have skyrocketed, vacancies have increased, rental rates decreased. All this information was dismissed.

"You skewed the numbers to get a low value," the client declared.

In a very calm voice I said "I am insulted by your comment. I did not skew any data, I reflected the market." I surprised myself with the frankness of my statement.

Then the client said, "A higher number would be helpful because.... Since appraisal involves judgment and you judged at the lower end of the market, can't you use judgment to conclude at the upper end of the market?"

"Are you suggesting that we increase the value to suit you needs?" Silence at the other end.

We clearly explained that the appraisal was completed to the best of our judgment and ability and that the value conclusion was well supported by market evidence and defensible. We delivered what we contracted to deliver. End of conversation.

Time will tell if the remaining 25% is forth coming.

Patricia Amidon, MAI, is president of Amidon Appraisal Co., Portland, ME.