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Market analysis improvement in all areas of appraisal practice

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I recently had the opportunity to participate in a very valuable discussion about market analysis on the MBREA email forum. This forum works exceedingly well because what is posted is carefully considered and participants don't just use the forum to strut their stuff or blow off steam, as is the case in many others.

Residential market analysis is all the rage. With the MC1004 well established and ongoing client requests for additional analysis of market activity, including consideration of data not used as comparables and higher level analysis, residential appraisers working for secondary market clients are learning - not without kicking and screaming - the realities of the post crash appraisal environment. Clients simply want more than "some sales/listings in a grid." This is not a passing fancy; this type of analysis is here to stay. The challenge is to figure out how to do this analysis efficiently and effectively.

Many will say that this analysis has been done all along and wasn't put into reports since clients "didn't ask for it." There are probably as many appraisers simply paying lip service to this type of analysis and weren't really doing property- & market-specific analyses and those that have been doing it all along. For those having short cut the process, not much tea and sympathy should be given.

This forum discussion was about the need to report market analysis in commercial, narrative reports. Commercial appraisers write narratives which provide flexibility in tailoring market analysis for a particular property/class. Many believe that Summary Appraisal Reports under USPAP don't require much market analysis. This is wrong for any number of reasons.

Many confuse 20-30 pages of data service information for market analysis. Surely this kind of information has its place. However, it lacks the specificity that targeted market analysis based on micro-market activity obtained from direct research and interviews which provides the context for effective highest and best use and valuation analyses.

Some comments from the forum discussion are instructive.

One person testifying as an expert witness noted that his report contained "hard" market evidence to support his position relating to market conditions. The attorney trying to challenge his conclusions was stopped "in his tracks" by the information. The appraiser goes on to say, "this goes for questions and challenges that appraisers may face from anyone using or reviewing a commercial appraisal report" and "this information needs to be included in reports."

Another said, "A statement of facts is not the same as analysis...many reports submitted to me for assessment purposes are rejected due to the lack of consideration of this issue...go back to basic appraisal requirements and do not take shortcuts when writing the report."

Market analysis, according to the Dictionary of Real Estate Appraisal, is a process for examining the demand for and supply of a property type and the geographic market area for the property type.

USPAP notes that a Summary Appraisal Report needs to provide sufficient information to enable the client and intended users to understand the rationale for the opinion and conclusions of the report. Further, FIRREA requires that the report provide sufficient information for the institution to engage in the transaction.

Many commercial appraisal reports I review contain information that could be considered raw material for market analysis. However, they don't analyze it. Many contain very little such information. The very good reports treat market analysis as an ongoing issue throughout the report. Overall, market analysis could stand improvement in residential and commercial appraisal practice. It's not simply an annoying client requirement: it represents an essential aspect of appraisal development and reporting and is more than just providing raw data. In conclusion, develop the analysis; communicate it to the client in the report!

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