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Appraisal is a two part process: The appraisal vs. the report

November 04, 2010 - Spotlights

Each appraisal is a two part process. The first part is the appraisal. This is the collection and analysis of all information that is consistent with the scope of work and necessary for credible results. The second part is the communication of the analysis and conclusions in a manner that is not misleading or confusing. This report is all that the client receives.

The weakest point in this two step process is the communication of the appraisal. This is all that a client receives and the only tool they have to evaluate the result of the appraiser's research and analysis.

There are several areas appraisers typically fail to adequately convey their reasoning in an appraisal.

The Uniform Standards of Professional Appraisal Practice (USPAP) requires appraisers to analyze the sales history of the subject for the three years prior to the effective date of value. Appraisers generally do a good job of finding and reporting the prior sales of the subject in the report. The appraiser must also analyze how the prior sale price relates to the effective date of value. If the property sold one year ago in a stable market the value should not reasonably have changed unless some property condition has also changed. It should be made very clear why the value has changed since the last sale.

The USPAP standards also require the analysis of offer to purchase, options, and listings of the subject that are current as of the effective date of value.

If there is an offer or option to purchase the appraiser must report and analyze it to the extent that it is known by the appraiser. The issue is what if any impact do the terms have on value.

The listing history is less clear. The appraiser is required to report listings current as of the effective date of value. Clearly a great deal of explanations would be required if the appraisal indicated a value that exceed the price the market had been unwilling to pay for the property.

If a property was listed several months prior to the date of value disclosure and discussion may still be required. The appraiser is required to consider market conditions and how the subject is perceived by that market. A prior listing may be a very significant indication of the market reaction to the subject in a specific price category. Why did the subject not sell when exposed the market and how does this impact the value of the property as of the date of value?

Another consideration is the sales utilized in the report. If they sold during the period that the subject was actively listed there is a clear indication of a market preference for the sales over the subject property at least at the price the subject was listed for. Care must be taken in the analysis of these sales when adjusting them to the subject. Why did the market prefer them over the subject?

Additionally any deviation from referenced data sources must be explained. For example if the square footage listed in MLS included finished basement space there should be an explanation before the size is changed in the report.

An appraiser may do an excellent job of gathering and analyzing information to a reasoned conclusion. Unfortunately, a poor communication of the result of the research and analysis can lead to the perception that the appraiser did not perform adequate research and analysis. The client may fail to recognize the quality of the appraisal and may even conclude the results are not credible. Steven Spangle, SRA, MRA, is president of Spangle Associates, Auburn, Mass.

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