



nerelj

Reviewing appraisals: Art and science - Part 2

March 08, 2012 - Appraisal & Consulting

Part 1 appeared in the February 10th edition of NEREJ.

To most investors, a competent appraisal is a welcome part of a prudent asset management process. An evaluation of that work product by an appropriately experienced review appraiser mitigates risk, provides effective communication between appraiser, reviewer and client, and adds confidence in the decision making process.

So, a reliable appraisal or appraisal review requires a skillful combination of "science and art". The "science" part is the gathering of appropriate market information and use of time tested and often complex valuation methods developed by the appraisal industry. The "art" part is the judgment that is required at many steps along the way, from appropriately characterizing a more complex subject property; researching comparable transaction data; selecting and using correct valuation methods in an ambiguous or distressed market; and reconciling often conflicting results and inconsistent market information into a reliable value conclusion. The increasing use of automated valuation models risks marginalizing the important role that judgment plays. The reviewer provides a common sense "safety net" for quality control and support for sound, confident financial decisions.

What are some of the characteristics of the best reviewers, beyond education, experience and competence? In an industry with tight deadlines, a paucity of transaction data and the large amount of detail in the appraisal process, mistakes are inevitable. Perfection is not the goal. A good reviewer does not dally over trivialities or make the mundane momentous, but instead focuses on key issues in an appraisal that lead to either a credible, reasonable conclusion or require a "leap of faith" to a questionable one. A good reviewer communicates effectively and empathetically with the appraiser. He or she recognizes the strong parts of an appraisal and provides constructive criticism where warranted. This is done in a cooperative spirit, when possible, to reach a reasonable, well-supported appraisal conclusion. An experienced, professional reviewer wants to be part of an appraisal problem's solution.

What types of clients do review appraisers serve? Given the high percentage of appraisal work that is driven by debt and equity finance, the appraisal review process has a crucial role in evaluating the quality and value of funded assets. Financial institution appraisal review staff are usually appropriately educated, very experienced, salaried professionals with high standards and ethics. They carry out an important function in the selection of fee appraisers and management of the appraisal process with the primary goals of quality control and compliance.

Well-seasoned, independent review appraisers also play an important role serving financial institutions and a wide range of clients like attorneys, municipalities, government agencies, corporations and individuals. Beyond assessing compliance and competence, the review appraiser can provide additional service by discussion with the appraiser; completion of an independent appraisal; focus on contentious appraisal "facts" or use of valuation methods; and many other ad

hoc needs.

In a litigation support role, an appraiser can objectively and without bias critique another's appraisal; complete a new independent appraisal; explain valuation methods, concepts and semantics; assist in the preparation of interrogatories; evaluate depositions; interpret oral testimony; provide additional market research and analysis; and testify as an expert witness. A real estate consultant with appraisal review expertise can provide strategic counseling and support for attorneys and influence litigation outcomes.

Appraisal Institute professional designations, MAI for commercial and SRA for residential, signify excellence in appraisal education, experience, and professional conduct. The Appraisal Institute's mission is to provide premier real estate education, publications, peer review, maintenance of exceptional standards and ethics, and advocacy for the profession. In this challenging and uncertain economic and political environment, performing appraisals and reviews has become more of an "adventure".

A qualified and experienced review appraiser provides a very useful, timely and cost effective evaluation of the data, methods and conclusions in an appraisal. These professionals also offer additional appraisal consulting or independent counseling services with insightful analyses, creative and practical solutions to real estate problems, and assistance with strategic planning, management and disposition of assets.

Randolph Glennon, MAI, CRE, is President of Eastern Appraisal & Consulting in Portland, ME

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