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Appraisal clients and the appraisal report - by Steven Spangle

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Steven Spangle
Spangle Associates

An appraiser has an obligation under the Uniform Standards of Professional Appraisal Practices (USPAP) to prepare an appraisal report that is not misleading and which contains sufficient information to enable the client and any intended users of the appraisal to understand the report properly. This means that an appraiser's client should not be left wondering what the appraiser did and why a specific value conclusion was reached. The report should be written in a way that allows the client to understand the report from beginning all the way to the final value conclusion.

Any significant characteristic of the subject that is not consistent with the comparable sales used in the appraisal should be identified by the appraiser and discussed. There are only three possible outcomes. The characteristic may have no impact, it could have a positive impact, or it could have a negative impact. In addition to explaining the characteristic the appraiser should explain how they supported an adjustment if one was indicated.

For example: An appraiser indicates that the subject neighborhood is inferior relative to the comparables selected by the appraiser. The questions that should be answered are: why no similar sales could be found in the subject neighborhood, and how did the appraiser support an adjustment. The client should clearly understand what the appraiser did and how they did it and how they supported the specific adjustments.

Clients also have some responsibility to recognize as significant the lack of comments addressing major issues and the lack of support within an appraisal.

For example: An appraiser is appraising a property for a lender to support a proposed equity line. The appraiser notes that the subject is located across the street from the rear of a commercial building and makes downward location adjustments. While noting in the report that the subject has 150 feet of frontage in a river that feeds directly into the ocean. The subject also has a boat dock. The appraiser reports that the location adjustment had taken into consideration the river frontage and does not make an individual adjustment for the frontage nor is there any explanation of how the

location adjustment was supported. Since the purpose of the appraisal was for a credit line the appraiser made a final downward adjustment to each comparable of 50% of their original sales price. No reasoning or support was provided for this adjustment.

There were several red flags with this appraisal. First, the lack of discussion of regarding the impact of 150 feet of frontage with ocean access is very atypical. In most markets the existing of water frontage and ocean access is a very positive feature. Second, there was no discussion of the contribution of the water frontage and no contribution was indicated. Third, and most significantly, the deduction of 50% based on the fact that the appraisal was ordered to support an equity line is not acceptable appraisal methodology and can not be supported by market evidence.

The client, a lender accepted the appraisal and denied the equity line of credit. The fact that the client did not raise questions regarding the three points just discussed is problematic. A lender has a responsibility to use a qualified, competent appraiser. They also have a responsibility to conduct a reasonable review of the appraisal after receiving it. Not doing this could possibly place them in the position of damaging their client's interest.

Appraisers have a responsibility to produce a report that is not misleading and at the same time to provide reports that contain sufficient information to enable the client and any intended users of the appraisal to understand the report properly. A client, regardless of their appraisal knowledge, should act in their own best interest, should be reading an appraisal critically. When they have questions about issues in an appraisal, they should be contacting the appraisal asking for more information or more support. These types of requests benefit both the client and the appraiser.

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