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Appraisals in a changing market - by Steven Spangle

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Many real estate markets are starting to see prices increasing but at a slower pace and some price ranges are starting to see price drops.

When a market is rapidly changing and sales and prices are in flux it can be challenging for appraisers who rely on historic data to support their conclusions. It is, therefore, important for appraisers to constantly be working to update their data and maintain transparency in their reports.

An appraisal report is a communication of a value conclusion. It is about taking the client and any intended users by the hand and guiding them through the process of gathering data, verifying the data, analyzing the data and reaching an objective opinion of value. Such a communication might sound easy but at times it can be very challenging for appraisers.

Some people believe that an appraised value is the subjective opinion of the appraiser. However, an appraisal should never be subjective. An appraisal should be an objective opinion.

A subjective opinion is the result of a person's outlook or expression of an opinion. It is based only on assumptions, beliefs, and opinions. The reasoning is not supported by evidence that it can be found and verified by other appraisers. As a result, a subjective opinion can vary greatly from one appraiser to another.

An objective conclusion is completely true, unbiased and balanced. It is based on facts and observations that can be found and supported by others looking at the same data and thus the opinion is verifiable by others.

The challenge for the appraiser is to communicate an appraisal report in such a manner that the client and other intended users will reach the conclusion that the opinion is objective and thus credible (worthy of belief).

The answer is that the appraisal report must provide enough information for the client to understand how the appraiser researched, verified and reached the value opinion developed. This starts at the beginning and runs through the entire report.

The neighborhood section provides a significant amount of information that will impact the balance of the report. The neighborhood boundaries, the percent and type of developed and the neighborhood price ranges. It should discuss how the information was developed and did it have a positive or negative impact on the subject?

An important component of the neighborhood section is the availability of sales that are similar enough to the subject property to be considered alternatives in the minds of potential buyers. The appraiser should discuss their efforts to find similar sales within the neighborhood. If no or limited comparables were found the appraiser should discuss what they found and why they were not

sufficiently comparable.

The selection of sales is crucial to the development of credible appraisal results. How were the sales selected and, if applicable, why were location and/or view adjustments required?

The report should contain an explanation of how each adjustment was developed.

Repeating an adjustment already shown in the adjustment grid, such as, “the size adjustment was \$50.00 per square foot” is simply a statement of information already provided.

An explanation for the development of an adjustment is about how the appraiser reached the conclusion. Such as “the size adjustment was developed using the cost approach to develop the contribution of an additional 150 s/f less depreciation” or “the size adjustment was developed through the use of the sales comparison approach. Two properties, one the same size as the subject and one 150 s/f larger were compared after adjusting for any other differences between them”.

There are times when a good appraisal may not result in a good appraisal report. Appraisers are extremely busy these days and clients are pushing appraisers for the quickest turnaround times possible. This can result in appraisers not always taking the time necessary to develop and proofread a report. Omissions of information are most often not intentional but the result of being overworked.

Most appraisers do a good job of developing and supporting their appraisal (not the same as the appraisal report). The support for research, including sources used and the methods and techniques utilized in the development of the value are included in their work file as required by the Uniform Standards of Professional Appraisal Practices. Care must be taken to communicate an appraisal report that is equally well developed, and understandable.

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