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Update on appraiser specialization - by Bill Pastuszek

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Bill Pastuszek
Shepherd Associates

I was looking through previous articles and came across something I wrote 4+ years ago that seems as appropriate now – if not more so – than then. Following is an update on the issue of appraiser specialization, competency, and meeting the current extraordinary demand for appraisal services.

Does an appraiser do a client, or for that matter the profession, or him or herself, a disservice by accepting an assignment for which she or he may lack an appropriate level of competence?

There may be reasons why this scenario occurs, but there is every reason to avoid this happening.

Appraisers are in the service business—professional services—and one of our responsibilities is to fulfill the engagement requirements of our clients.

With demand for appraisals at some sort of historical peak and the shortage of available appraisers, there is a real and ongoing supply issue. Clients sometimes reach outside the usual circle of expertise in order to get properties valued.

The shortage of appraisers is particularly apparent in specific real estate categories. To name a few property types for which appraisal demand hugely outstrips appraisal capacity: Lodging, self storage, senior care facilities, health care institutions, educational properties, convenience stores, easements, and development land. These type of assignments require a degree of knowledge of the business of the real estate which require specialized training, knowledge, and experience.

While all appraisers may, at birth, be considered to be equal, ultimately there is some sorting out. There are “peers” and then there are “appraiser peers,” those appraisers who possess the same or similar competencies for an assignment. Think of a large hall - virtual or physical - filled with appraisers. Someone at the front of the room calls out an assignment and the appraisers sort themselves out. As different assignments are called, the groups sort themselves differently. In a perfect world, those sortings, based on expertise and experience, would result in a pool of appraisers that could take on the assignment. Assignments that require mostly general knowledge would attract a large group of generalists. Those assignments that require narrow and deep expertise would have the smallest groups, giving clients fewer choices, and which could force clients to seek services from outside the ideal, smallest group if the experts were overburdened. This is happening in the marketplace as clients—in particular, lending clients—desperately seek appraisers to appraise for financing transactions.

The Competency Rule of the Uniform Standards of Professional Appraisal Practice (USPAP). Competency says that competency may apply to 1. a specific property or asset; 2. a market; 3. a geographic area; 4. intended use; 5. laws or regulations; 6. an analytical method. All of these factors need to be considered in developing (and executing) an appropriate scope of work.

Intended use drives the appraisal bus. Not knowing the requirements of an assignment’s Intended

Use has put more than one client (and appraiser) in a precarious situation due to an appraiser not being fully cognizant of what is required in a particular assignment. Those appraisers can be familiar with the property and even with techniques but not understand the requirements of an intended use.

Consider also technical expertise. A commercial appraiser—a specialist—skilled in lodging properties may have a great deal of difficulty in competently developing a retail shopping plaza appraisal. A commercial appraiser used to capitalizing net operating income may run into difficulty in processing cash flows from a condominium sell-out valuation.

Let us also consider laws and regulations. Many appraisers believe it is the client's responsibility to make sure the appraiser provides a compliant report, and to provide the appraiser with all necessary guidance and information. No. Not true. Actually, it is the appraiser's responsibility to know the laws and regulations applicable to an assignment. The appraiser is the professional who needs to know what to do in a particular situation even if there is no one else that has the faintest clue. If the appraiser doesn't understand this responsibility (and counts on inspiration, improvisation, or the client's lack of sophistication), the result can have serious repercussions in the review phase, the legal arena, or even at the Appraiser Board level.

Now let's consider competency at the property, market, and geographical levels. Local knowledge is the stock in trade of many appraisers. As they work in their familiar markets over long periods of time, they develop invaluable insights and understanding of these markets. That long experience knowledge is what clients desire from generalist appraisers.

For many assignments, however, a specialist is needed. Generalist appraisers are often willing to take on a range of assignments, and will often underbid a particular specialist. But generalists need to know their limits. There are plenty of specialists out there who know theirs.

The technology out there allows generalists to appear to be specialists. Fill out the template and the appraisal is done....hmm. But there are property classes that are best left to specialists in today's complex appraisal world. There is work enough out there for every level of specialty and expertise.

In an environment of high demand for appraisal services, clients and appraisers alike need to be careful about matching assignments with expertise. If not, there is potential trouble down the road.

Bill Pastuszek, MAI, ASA, MRA, heads Shepherd Associates, Newton, Mass.

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