

# Appraisal Issues

The Reviewer's Perspective –  
An Overview of Exceptional Appraisal Practices

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# *Introduction*

- Opening Remarks
- What will we cover
- State of the Profession: Opportunities and Threats
- How this Presentation was Developed.

## *Good Appraisers, Great Reports*

- What differentiates great appraisals from the merely average?
- What can appraisers do to their appraisals to stand out from merely average, sub par, and/or unacceptable appraisals?
- “Good appraiser, bad report” syndrome
- Can the value be “right,” yet, the report not be acceptable?
- Categories of Compliance: USPAP, FIRREA, Client, other (e.g., SBA, Yellow Book)

## *Transparency – From Beginning to End*

- The best appraisals disclose the scope of work in a separate section and continue to disclose scope of work decisions throughout the report—*what* is being done; *how* it is being done; and *why* it is being done.
- Done well, these scope of work explanations give report readers insight into the appraisal process and activities related to the assignment. *Disclose & when in doubt, disclose some more.*
- Every appraisal has its own specific scope of work: while certain activities take place in every appraisal assignment, each assignment has its own particular “flavor.” The best appraisals disclose both those activities that occur in every appraisal, and also document scope of work decisions that are specific to the assignment. The best appraisals disclose scope of work decisions throughout as needed.

# Scope of Work Example – Assignment Specific

## **SCOPE OF WORK**

The appraiser:

- \* inspected the interior and exterior of the existing home which is to be razed, per buyer.
- \* examined the property deed, site plan, flood map, assessors plat map, and other available plans.
- \* gathered and analyzed information on sales and listings of single-family homes in [REDACTED] during the past two years. Primary emphasis is on new construction priced from \$2,200,000 to \$3,200,000.

the appraiser has searched for sales of existing dwellings that were purchased for their land value. Additionally the appraiser searched for sales and listings of homes priced from \$900,000 to \$1,200,000.

- \* confirmed and analyzed data and considered application of the three traditional approaches to value.

# *Logic and Reasoning*

- The best appraisals contain a series of supported arguments that build to a value conclusion.
- Strong appraisals contain the data, analyses, and opinions that lead the reader of the report to understand *how* the appraiser reached his or her conclusions and *why* the data presented is relevant to the subject.
- Definition of *Critical Thinking*: “the objective analysis and evaluation of an issue in order to form a judgment.” Sounds a lot like the definition of an appraisal.

## *The Art of Anticipating*

- The best reports adopt the positioning of the readers—clients and intended users. There are a lot of eyes on reports. Well-crafted appraisals anticipate what questions\* that readers will have related to the assignment.

&

- Answer those questions proactively in the report.
- From the perspective of a user of the report, superlative appraisals are those that seek to answer reasonable assignment-specific concerns in readers' minds. The best appraisals identify problematic aspects of the assignment and address them in the report.

\*reasonable questions, that is...

## *Supporting not Asserting*

- Definition of Assertion: “state a fact or belief confidently and forcefully.
- But, Saying something is true does not make it true.
- Very good appraisals do not assert without support.
- Support can take many forms.
- The “I” syndrome. For example: “I have the opinion, based on my many years of appraising and intimate knowledge of the market, that the vacancy for the subject should be 10%.”
- Without market support and appropriate analysis to back up this judgment, a reader would question the appraisal’s conclusion.



## Are you convinced by this explanation?

(Original) SUBJECT AREA RENTS CONTINUE TO INCREASE IN TODAYS IN THE CURRENT MARKET. RENTAL CONCESSIONS ARE UNCOMMON IN THE SUBJECT'S AREA. GOVERNMENT ASSISTED PROGRAMS ARE NOT TYPICAL IN THE AREA. AREA MULTI FAMILY UNITS ARE RENTED WITH SEPARATE UTILITIES. LEASES ARE GENERALLY ONE YEAR (TAW) WITH RENEWAL OPTIONS. RENTAL COMMAND IN THE AREA IS CONSIDERED STRONG DUE TO LOCATION AND STABILITY OF OWNERSHIP. RENTS MAY BE VARIABLE DUE TO LOCATION, CONDITION AND OVERALL APPEAL.

Actual Rent		Total Rent	Opinion Of Market Rent		Total Rent
Per Unit			Per Unit		
Unfurnished	Furnished		Unfurnished	Furnished	
\$ 2,750	\$	\$ 2,750	\$ 2,450	\$	\$ 2,450
\$ 3,100	\$	\$ 3,100	\$ 3,300	\$	\$ 3,300
\$ 2,167	\$	\$ 2,167	\$ 2,450	\$	\$ 2,450
\$ 3,500	\$	\$ 3,500	\$ 3,300	\$	\$ 3,300
Total Actual Monthly Rent		\$ 11,517	Total Gross Monthly Rent		\$ 11,500
Other Monthly Income (itemize)		\$	Other Monthly Income (itemize)		\$
Total Actual Monthly Income		\$ 11,517	Total Estimated Monthly Income		\$ 11,500

What would you do to make the explanations and rent adjustments clearer?

# Reconciliation

- There is a final reconciliation. Reconciliation takes place in each approach.
- Often the reconciliation within each approach is where the best appraisals provide support to identify the strengths and weaknesses of the comparable data and to ascertain which sales or rentals are the best: *all comparables are not necessarily equal even after adjustments.*
- For example, relying on a sale that has a total of 60% adjustments may not be perceived as reliable as one that has 10% adjustments. The better appraisal reports will explain and support the reliance on the highly adjusted comparable (or, the sale may not make it into the report as a comparable but might be mentioned.)

# *Information Relevance*

- The best appraisals provide an appropriate quantity of relevant data and
- answer the questions of *why this data is relevant* and *how does it affect the subject?*
- The inclusion of vast amounts of data with no or very weak conclusions is not a practice of great appraisals.

*Above average appraisals also attribute sources for their data.*

## *Attentiveness to Detail*

- Grammar, organization, proofreading, formatting, and labeling exhibits all count.
- If total reliance is placed on grammar and spell check, there are likely to be some potential whoppers in the report.
- Readers pay attention to inconsistent headings, missing pages numbers, orphaned sentences, blank pages, relics from overwriting of old reports, and also have some objections in having to plow through page after page of unfiltered secondary source information which is often cut and pasted without attribution.
- *Good appraisals show that the appraiser read, understood, and complied with the requirements of the letter of engagement.*
- Revised reports provide a new date of report and make sure revisions flow through.

## *Readable Reports: Organization & Presentation*

- *Readability.* The best appraisers work hard at providing reports that are visually appealing, well-organized, and are easy to read and understand.
- Excellent appraisals have attractive, non-obtrusive graphics, consistency in charts and exhibits, do not constantly repeat information, and have a digestible “flow” to the presentation.
- *Data Presentation and Analysis.* Persuasive appraisals provide relevant data, and meaningfully analysis the data.
- Good appraisals do not insert 20 rentals in a chart without a map or other exhibits and conclude, “the comparable rents range from \$19.85 to \$43.25 PSF. Thus, the subject’s market rent is concluded to be \$30 PSF, which falls within the range of the data.” This is an example of The Dartboard Method: see next page.
- Good appraisals narrow down the data set to those rentals that are truly relevant and provide discussion and analysis of similarities and differences to support the appraisal’s opinion.

# Which is More Readable?

EXPOSURE TIME: THE ESTIMATED LENGTH OF TIME THE PROPERTY INTEREST BEING APPRAISED WOULD HAVE BEEN OFFERED IN THE MARKET PRIOR TO THE HYPOTHETICAL CONSUMMATION OF A SALE AT MARKET VALUE ON THE EFFECTIVE DATE OF THE APPRAISAL ; A RETROSPECTIVE OPINION BASED ON ANALYSIS OF PAST EVENTS ASSUMING A COMPETITIVE AND OPEN MARKET. EXPOSURE TIME FOR THE SUBJECT NEIGHBORHOOD IS ESTIMATED AT 30-90 DAYS.

## **EXPOSURE TIME AND MARKETING TIME**

Exposure Time and Marketing Time are defined as follows:

Exposure Time is defined as: *“the estimated length of time that the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at the market value on the effective date of the appraisal.”*

# Which is More Effective?

## Dartboard

The following rental data is considered relevant.  
The unadjusted range is from \$23.85 to \$74.96 per square foot. The low end of the range is a listing in No. Carolina and the upper end of the range is a listing of a property in Boston.

\$27.74
\$29.00
\$35.00
\$27.50
\$24.26
\$30.11
\$30.11
\$29.00
\$23.85
\$29.04
\$37.25
\$25.89
\$74.96

## Relevant Data

Monthly Rent:	\$1,675	\$1,800	\$1,950
Square Feet	376 sf.	347 sf.	378 sf.
Rent/Sq. Ft. of GLA	\$4.45 / sf.	\$5.19 / sf.	\$5.16 / sf.
FINANCING:			
Adjust.	None	None	None
	0%	0%	0%
RENT CONCESSIONS:			
Adjust.	None	None	None
	0%	0%	0%
ADJUSTED RENT:	\$1,675	\$1,800	\$1,950
RENTAL DATE:	07/19/2022	06/29/2022	07/13/2022
Adjust.	0.00%	0.00%	0.00%
ADJUSTED RENT:	\$1,675	\$1,800	\$1,950
LOCATION:			
Rating	Similar	Similar	Similar
	0%	0%	0%

## *Persuasiveness*

- Appraisers look back at their reports and try to poke holes in the data and logic presented. Readers will be doing the same.
- The best appraisers will address “holes” in the appraisal and be willing to admit – in the report – that the data may not be the best, and that there is a heightened amount of judgment being applied.
- It’s not enough to say, “The data is the best available,” or some variation of the same: this sounds like a concession. Plug the holes!



## *Summing Up*

- Appraisers are tasked with providing reports that are meaningful, objective, and not misleading.
- The best reports present relevant research and analyses that give credible results.
- The best appraisers constantly seek ways to improve.
- There's never a wrong time to evaluate and re-evaluate if we are doing things as well as possible, knowing that...perfection is impossible to achieve...
- ...for most appraisers, anyway!