

The Review Process



A win-win for clients and appraisers.

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The specialized field of appraisal review is one that many right of way professionals contend with daily. Those working in government, the utility industry or in right of way consulting firms typically work to ensure contracted appraisals are in compliance with various regulations and to help increase their confidence in the final product.

Review formats may vary from a standardized form to a more complete descriptive narrative. They may differ in a value opinion relative to the original report or be more limited in scope, focusing only on whether or not the report is in compliance with accepted regulations. What exactly goes into a quality review appraisal? What does USPAP (Uniform Standards of Professional Appraisal Practice) have to say about the process of review? This article will attempt to define and clarify those issues in greater detail.

Purpose of the Review

The appraisal typical review may be performed for several reasons, including:

- 1) Ensuring local or state regulatory compliance
- 2) Adherence to USPAP
- 3) Obtaining confidence in the value estimate and final product
- 4) Becoming familiar with the reasoning and logic behind the opinion of value
- 5) Giving special attention to detail before presenting property owners with potential offers
- 6) Ensuring that the appraiser fulfilled assignment requirements, such as hypothetical conditions and extraordinary assumptions

Regardless of the reason, reviews have become standard procedure in the profession, offering practitioners an opportunity to expand services and gain insight into how others analyze and research the market. As with any new specialty, and as required under USPAP guidelines, there is a process for gaining knowledge and confidence. Working with others experienced in this field and taking the steps necessary to become proficient are paramount.

Types of Reviews

For several years, the review process has been divided between those referred to as administrative reviews and those commonly called technical reviews. Both can be completed in the office, but some might have elements requiring a field inspection of the subject and/or comparables.

Administrative reviews are typically far less comprehensive and are usually completed by non-appraisers who simply check the documentation to make sure that various elements have been addressed. While they provide a necessary role, it is a basic role that doesn't require technical knowhow.

Technical reviews, on the other hand, are more in depth and require the skills of an appraiser to examine the fine points of methodology and adjustment. Does the highest and best use analysis make sense? Are the adjustments considered truly appropriate? These are the types of questions that can only be answered by someone with an intimate knowledge of appraisal practices and specialized training.

In some cases, the reviewer may be required to not only comment on the reasonableness or competency of the work performed by another appraiser, but also develop an independent estimate of value if asked to do so by the client.

“did the appraiser fulfill the assignment standards and parameters in a logical and reasonable fashion?”

To quote the USPAP Advisory Opinion 3:

“However, a client may also want the reviewer to develop and report his or her own opinion of value (an appraisal) within an appraisal review assignment. In this instance, the appraisal review assignment is actually a two stage assignment: an appraisal review plus a value opinion by the reviewer.”

Further, and with regard to the Scope of Work decision:

“The purpose and intended use together, of an appraisal review assignment, affect the scope of work in an assignment. Therefore, it is essential that reviewers clearly identify the purpose and intended use of the appraisal review and establish a well defined scope of work with their client to ensure a clear understanding of what steps are and are not necessary in an assignment.”¹

In fact, in recent years, the scope of work portion of an appraisal report has been given even more importance by USPAP. Rather than be restrictive, it gives appraisers the opportunity to define for themselves the nature of the work involved. USPAP simply asks that full disclosure to the client is made regardless of the type of work involved.

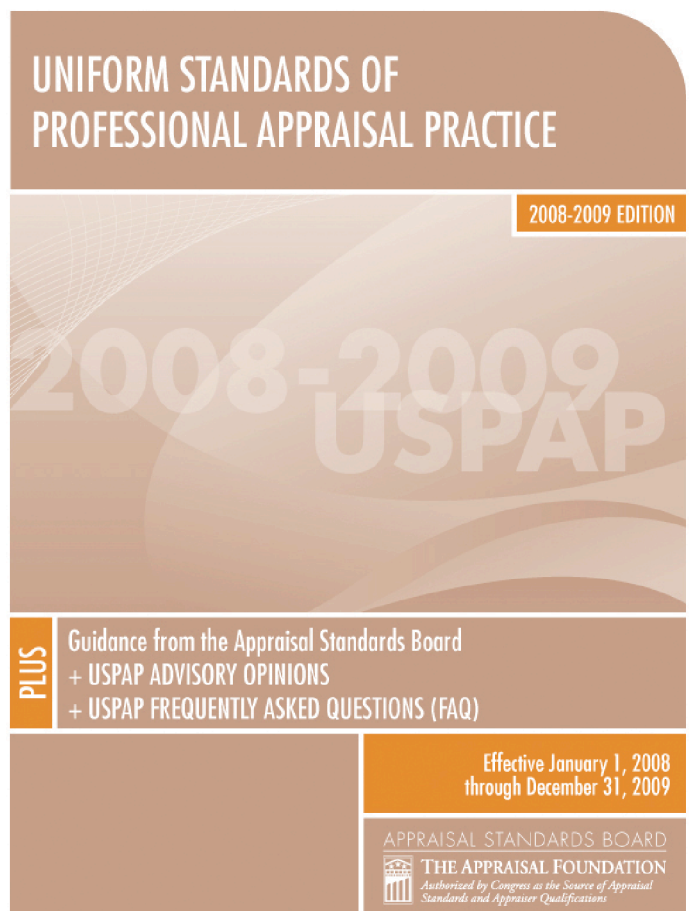
Defining Scope of Work

Regardless of the type of review, the exact nature of what is being communicated and provided to a client must be stipulated in the Scope of Work decision. Should the review include all or only part of another's work? Will this be a desk review or will it involve a field inspection? Should the reviewer include their own value opinion?

All of these questions can and should be answered early on in the Scope of Work section of any review. A review must begin with a thorough understanding of the instructions given to the original appraiser. Use, user, scope, definition of value and any hypothetical conditions or extraordinary assumptions must be considered to determine whether they were reported properly and communicated in an effective manner. This is the real heart of a review. In short, did the appraiser fulfill the assignment standards and parameters in a logical and reasonable fashion?

Development and Reporting

As with a standard appraisals, there are USPAP regulations governing the development and reporting of review work. Both functions are covered under Standard 3 of the Uniform Standards. Regarding the development of a review, the same elements as found in typical appraisal reporting apply. These include the following:



Development of a Review

Documentation of the following:

- Reviewer's client
- Potential users (extent of review should be disclosed here; will review include analysis of another's work and/or the reviewer's own opinion of value?)
- Subject of review
- Effective date of review
- Property and ownership interests appraised in the work under review
- Date of work under review and effective date of opinion/conclusion of work under review
- Name of appraiser who completed work under review (unless withheld)
- Determination of scope of work necessary to produce credible assignment results in accordance with Scope of Work Rule
- Analysis and opinion of completeness/appropriateness of various elements under review

Reporting of a Review

The reporting of review results includes many of the same points as above under rule 3-2. Documentation must include the following:

- Name of client
- Intended use
- Intended users
- Subject of the review
- Effective date of review
- Property ownership interest appraised in the work under review
- Date of work under review and effective date of opinion/conclusion of work under review
- Name of appraiser who completed work under review (unless withheld)
- Scope of work to be used to develop review

- Opinions, reasons and conclusions required in Rule 3-1 (d-g) as above. (This primarily concerns opinions as to appropriateness/completeness of various elements of work under review.)
- All known pertinent information - allows client/users the ability to understand the rationale for the reviewer's opinions and conclusions.
- A signed certification in accordance with rule 3-3 completed. (A sample certification and elements to include is provided on page U-34 of USPAP.)
- Rule 3-4 focuses on the requirements of an oral review²

Many of the requirements for review development and reporting process overlap considerably. A quick scan of the various elements reveals that it is simply an outline of detailed disclosure. Give as many facts as possible and tell the user/client/reader exactly what was done or not done as the case may be. Sound familiar? Journalism courses have always emphasized the importance of who, what, why, where, when and how—this is a simple variation of that call for thoroughness.

Comprehensive Reporting

Of course, other factors must be considered in the review report, whether completed in house or contracted, and one of the most commonly overlooked is the quality and quantity of exhibits. Too often we encounter poor quality maps, photos that are blurry or graphs that may be visually appealing but provide little data. Add to this the age old problem of canned and overly simplified narrative, and soon the entire report becomes hard to follow. Given the abundance of online data and the convenience of digital photography, these inadequacies should be a thing of the past.

Review appraisers, along with those they are reviewing, should embrace the ability to form a complete narrative discussion. This is an opportunity to explain the logic and reasoning used in the report to win the reader over and demonstrate a mastery of the subject material. Even forms may be augmented with addenda sheets that do not require much additional time but add tremendously to the quality of the work product. However, there seems to be an unfortunate trend developing in which reviewers and appraisers provide only the bare minimum in the narrative portion of most reports regardless of what format is chosen.

“reviewers need to include information that will help the reader follow their logic.”

Yes, time is money and there is often a rush to move reports along, but it is usually at the expense of explanatory narrative. Ironically, this usually generates questions on behalf of the reviewer. Between the phone calls and the needed corrections, how much time was really saved? The same should apply to reports produced by reviewers.

As a reader, I want to know more about which comparables were relied upon and which were somewhat less influential. Tell me your thoughts on the subject and how it relates to the marketplace. Tell me where the strong points are as well. While a small novel isn't necessary, reviewers need to include information that will help the reader follow their logic.

Remember that commentary regarding both good and bad points is critical in maintaining an unbiased review. In her book *Scope of Work* (Case Study 11), Stephanie Coleman, MAI, brings forth an example in which:

“...you (the reviewer).....suggest to the client—and he agrees—that you should identify both the strengths and the weaknesses (of the report). Otherwise, you would be producing a biased opinion. Furthermore, you are better serving this client by giving him full information about the quality of work under review.”³

Underlying the entire review process however, is the mindset of the reviewer to begin with. In his book, *Appraising the Appraisal*, Richard Sorenson, MAI, notes:

*“To evaluate an appraisal, the reviewer must carefully read the report and follow the appraiser’s reasoning. A good reviewer does not nitpick, arguing with everything in the report to justify his or her employment. The review should focus on the significant issues and factual information that have an impact on the appraiser’s findings, the reliability of the report, and the value conclusion.”*⁴

Too often reviewers end up criticizing the appraiser and not the appraisal. All of us in a review function must keep in our minds, first and foremost, the quality and reasonableness of the work product, and not of the individual. Personal views with regard to the appraiser will, without question, cloud a reviewer’s ability to objectively examine another’s work.

How a reviewer communicates to the appraiser may be just as important as the review itself. It is natural for reviewers to become too focused on the laundry list of things to correct and fear that the appraiser will become defensive. Both sides have valid reasons for their respective positions. The reviewer needs to ensure compliance with regulations and a level of confidence in the work product. The appraiser, by comparison, having spent weeks developing a cogent report, is certain that all of the T’s have been crossed and the I’s are all dotted.

Of course, no one—not even the reviewer—wants to feel like an errant school child called into the principal’s office. Now is the time to brush up on diplomacy, for there is a way to get the needed corrections and avoid a confrontation.

Conclusion

Several of the better reviewers that I know tend to view themselves more as coaches rather than traffic cops. With an attitude of “we’re in this together,” and “I’m here to make your product even better,” much more can be accomplished. There is no doubt that a review appraiser will employ skills that may be uncommon to the average field appraiser. They are part diplomat, regulatory expert and active practitioner. It can be quite a balancing act, but one that is often rewarding. Reviewers provide a valuable buffer between the client and the appraisers with an eye towards achieving a worthy goal of a win-win outcome. ★

¹ Uniform Standards of Professional Appraisal Practice 2008-2009 Edition, (Washington, D.C. Appraisal Standards Board) Page A-58 from Advisory Opinion 20.

² Uniform Standards of Professional Appraisal Practice 2008-2009 Edition, (Washington, D. C. Appraisal Standards Board) pp. U-30 – U35.

³ Coleman, Stephanie, *Scope of Work* (Chicago: Appraisal Institute, 2004) 91.

⁴ Sorenson, Richard, *Appraising the Appraisal*, (Chicago: Appraisal Institute, 1998) 3.