

OPINION OF VALUE

Communicating from the Client's Perspective



BY GAYE RUTAN

Appraisals are a funny thing. Our world relies on appraisals for loans, estate planning, eminent domain and everything in between. The reader of the appraisal report can be either happy or unhappy with the value depending on their view point when reading it. For example, in the residential market, people wait with baited breath to find out what their house will appraise for so they can close on their loan. If the home appraises for a sufficient value and the loan closes, then the homeowner is relieved. The basis for property owner happiness relies on whether the appraised value will cover their loan.

In condemnation work, property owners are more likely to be dissatisfied with the appraised value. Their dissatisfaction is not based on whether the loan will close, but it is focused on the fact that their property is being taken and they have no choice. As a result, the negotiation process begins on a sour note, as the property owner is already disgruntled.

Customary Practices

Review appraisers have their own standards for measuring satisfaction. These standards are based on whether the appraisal report communicates the opinion of value in a manner that the reader can follow. Reviewers examine the highest and best use, larger parcel, explanation of adjustments, conclusions and most importantly, communication of these items in the report.

Appraisers and review appraisers are responsible for things other than value. We must conform to (USPAP) Uniform Standards of Professional Appraisal Practice. It requires that appraisers be responsible for knowing and applying customary appraisal practices, supplemental standards, such as the client's special requirements or conditions, and communicating that value conclusion in a report. Appraisers must conform to all of these requirements to satisfy the customer, regulatory requirements and ensure adequate communication.

Client v. Appraiser Perspective

The standard definition of communication is, 'the imparting or interchange of thoughts, opinions, or information by speech, writing, or signs.' In appraisal reports, we take this a step further and define it as effectively communicating from the client's perspective, not the appraiser's.

When the client doesn't fully understand how the appraiser derived the stated value, then this communication standard is not met, and the report is considered misleading.

As per the USPAP standard 2-1, each written or oral real property appraisal report must:

- a) clearly and accurately set forth the appraisal in a manner that will not be misleading;
- b) contain sufficient information to enable the intended users of the appraisal to understand the report property; and
- c) clearly and accurately disclose all assumptions, extraordinary assumptions, hypothetical conditions and limiting conditions used in the assignment.

Show the Thinking Process

As a review appraiser, the most common mistake I see in reports is unclear communications in presenting the data and facts. As a former fee appraiser, I recognize the tendency to conclude a value with little or no written explanation. While the appraiser may have done a thorough analysis, it is often left out of the report. Appraisers sometimes make the assumption that the reader is going to draw the right conclusions from one section of the report to the next. Unfortunately, a typical reader won't do that.

“I recognize the tendency to conclude a value with little or no written explanation.”

The job of the review appraiser is to see that the report conforms to USPAP and is sufficiently detailed so that the land owner can understand how the value was derived. When an appraisal report explains the appraiser's thought process, then the relocation agent has much less difficulty in negotiating the acquisition. An appraisal report that doesn't sufficiently explain the process for determining value is certain to lead to obstacles during the negotiating process.

It is also effective to have a brief summary of conclusions in the same paragraph as the value conclusion. It isn't necessary to provide a point-by-point analysis. However, by providing sufficient information, the reader can follow the logic and understand how and why you concluded the value. Supporting some of the major points that led to your opinion of value strengthens your report and facilitates a smoother process.

Example: Escalating Market

Using data that supports your value conclusion also ensures less chance that anyone will argue with declining sales as a matter of public record. In an escalating market the comments might look something like this:

“The sales ranged from \$9.00/sf to \$18.00/sf. The market value conclusion is \$17.50/sf. The property is a typical property, but in this increasing market, a conclusion at the upper end of the range of sales is appropriate. Supporting data for this conclusion includes the neighborhood data discussion in this report, the increasing sales prices and the frequency of sales. For instance, in 2004 there were four industrial sales, in 2005 there were seven, and in the first half of 2006, there were eight sales of industrial property in this area. These market indicators support a value for the appraised property at the upper end of the range of sales.”

Example: Declining/Flat Market

In a declining or flat market, it can sometimes take a few months for the market to show a clear direction or rate of decline. In this case, the comments might look something like this:

“The sales ranged from \$9.00/sf to \$18.00/sf. The market value conclusion is \$13.50/sf. The property is a typical property in a flat or slightly declining market. In the neighborhood data, the discussion demonstrates that the sales price of properties of this type is not increasing significantly and that there is a decrease in the frequency of sales. For instance, in 2006 there were 14 industrial sales, in 2007 there have only been five sales since the first of the year, and we

are only halfway through the year. These market indicators reflect a flattening market. Note that the older sales are adjusted for market conditions (time) and the more recent sales are not time adjusted. The more recent sales are not adjusted for time (aka market conditions) as that would over inflate the market value in the report. The appraised property is a typical property and a typical or median value conclusion is supported given the current market is flat.”

A third alternative might be to peg the value to a specific sale and give one or two sentences for your reasoning, including why you thought it was appropriate to use as a strong indication of value. Simply adding a few lines of explanation to your value conclusion adds clarity to the report. These same comments apply to sales adjustments for location, market conditions and size. When using your own opinion for the adjustment, then explain two or three market elements you observed that support your opinion of value.

Many appraisers argue that if they say something specific in their conclusion, then when they testify, the attorneys crucify them. Of course they will; that's what attorneys do. If you expect them to do anything other than their job, don't put yourself in the position to testify!

Summary

Clear, concise communications are beneficial for several important reasons. First, they help reduce the likelihood of addressing concerns raised by the reviewer. Second, they enable the agency negotiators to focus on facts and data in their negotiations, which in turn makes their job easier. And if we can improve the process to make our client's job easier, then repeat business is likely to follow. 🌟