

Appraisal Review Process Is Outlined

By Floyd Wise

Right-of-way is one of the few "items" that must be acquired by a governmental agency without the competitive bidding process. Expenditures totaling many millions of dollars are made each year for right-of-way solely on the basis of good judgment, which is properly supported by research, knowledge and experience in land acquisition.

Because of the amounts of money involved, the public and governmental agencies are becoming extremely conscious of the need for a completely adequate valuation process that will guarantee protection of the rights of the individual landowner and the taxpayer's investment in the public project.

It is the responsibility of the Reviewing Appraiser to ascertain that this valuation process, as prescribed in writing by the agency, has been properly applied in determining the value of each parcel to be acquired. The Reviewing Appraiser must be sure that the agency is in a position to support and defend, through adequate documentation, the final valuation figure that is offered to the landowner.

The individual reviewer must serve as a buffer between his organization and any person or agency which may doubt that an adequate valuation process has been used either in individual cases or as a general practice. He must also defend the final approved valuation/damage figure assigned to any parcel reviewed by him, if it is challenged as being incorrect, inadequate or excessive.

In general, the Reviewing Appraiser must be a shield to protect the agency from criticism concerning the valuation process used in establishing values and the payments made for the purchase of right-of-way.

To enable the reviewer to properly accomplish his mission, he must assume three primary responsibilities. These are: To determine that the appraised value of any parcel assigned to him for review is fair to all concerned; to ascertain that the documentation in the valuation file is ade-

quate to support and defend the approved purchase price that is assigned to every right-of-way parcel; and to see that the standards and requirements for appraisal work, as set out by the acquiring authority, are complied with in an acceptable manner.

A secondary duty of the reviewer is to contribute in every way possible to the education and development of appraisers. No one will be in a better position to discover errors, weaknesses and misunderstandings concerning proper appraisal procedure on the part of the individual appraiser, than the Reviewing Appraiser. Conscientious effort on the part of the reviewer in helping the appraiser recognize and overcome his deficiencies will pay substantial dividends by enabling him to submit appraisals in the future that can be reviewed in a timely manner and which will not require corrective action.

Sometimes it is necessary for a Reviewing Appraiser to discuss an appraisal with a staff or fee appraiser or to reject the appraisal. Circumstances in which these situations may occur will be discussed in this article in light of procedures and practices which can be followed when the reviewer finds the original appraisal to be deficient, inadequate or in error.

Appraisal revision and rejection are undesirable actions, and the causes of these actions should be prevented, if possible. Before I discuss actual rejection procedures, I will briefly cover some preventive measures that should be taken.

Standards And Requirements

Appraisers must know what is expected of them by the agency or department for whom they are working. Every acquiring agency should have standards of quality and specific requirements for appraisal work. These standards and requirements should be set out in detail as written instructions or in a manual. The instructions must be made available and explained to the appraiser before his assignment to the project.

For the benefit of both the appraiser and the acquiring agency, care should be taken to assure that the appraiser understands what is expected of him and what information must be contained in his appraisal before it will be considered adequate and acceptable. Group instruction for fee appraisers, as well as staff personnel, is desirable so that appraisal requirements are interpreted correctly.

A reviewing appraiser must also meet minimum standards with regard to his ability, training, experience and knowledge in his field. The reviewer should be a well qualified, informed and proven real estate appraiser. It is preferable that the reviewing appraiser have a more thorough and complete understanding of the appraisal process than the average appraiser. He must be knowledgeable of the appraisal requirements within his agency and he can supplement his knowledge and experience with formal education in the appraisal field.

Enforcement

Enforcement of the requirements concerning appraisal preparation must be consistent and fair. The reviewer must guard against claims of preferential treatment. It is desirable that the Appraisal Contract be properly worded to clearly specify that the appraisal signature on the contract, or letter of acceptance, indicates that the appraiser understands the acquiring agency's instructions and requirements for appraisal work and that he agrees to comply with these. A policy of withholding payment of fees until the appraisal is approved by the reviewing authority helps to enforce the requirements.

Understanding

Appraisers must understand the taking. Sometimes an appraiser will begin a project hastily, especially when partial takings are involved, without understanding the actual physical changes that will be made in and around the subject. Assumptions concerning grades, exact location of right-of-way lines, depth of cuts and fills, can lead to errors which in the end may lead to revision or rejection of the appraisal.

The appraiser must also understand the basic legal principles concerning special benefits, non-compensable losses, and personal property. Misunderstandings and misinformation concerning the legal aspects of land acquisition, may lead to errors which cause considerable loss of time and effort through appraisal revision.

It is important that the appraiser fully understands all phases of the taking, so his conclusions will be based on correct information. It is the acquiring agency's responsibility to furnish dependable information to the appraiser.

Reasonable Time Limit

Appraisers must be given a reasonable amount of time to do the work assigned. It is not recommended that the appraiser be rushed to finish his work because this may result in an inadequate job.

Tact And Diplomacy

Those engaged in appraisal review work should be reminded that the use of tact and diplomacy is essential to maintain a good working relationship with appraisers. The reviewer is often in a position of pointing out errors in the work of others and giving constructive criticism. If he does not display tact and diplomacy, the appraiser's pride in his work may be jeopardized. The Reviewing Appraiser should establish the reputation of being firm without being narrow-minded or dictatorial, and at the same time of being open-minded without being easily swayed or susceptible to pressure. An appraiser is normally receptive to constructive and justifiable criticism and will respond in a co-operative way to reasonable requests for corrective action.

Appraisals Immune To Rejection

In considering actual appraisal rejection procedures and practices, it would be logical to clarify which areas of the appraisal are susceptible to demands for either corrective action or rejection, and which are immune. It must be emphasized that no one should ever be authorized to instruct or influence an appraiser concerning his valuation or damage conclusions. Minimum procedures to follow and actions to be taken in the appraisal process should be specified, as well as the manner of reporting, explaining, justifying and documenting conclusions, but never the monetary amounts he sees fit to reflect in his appraisal. It therefore follows, that an appraisal which meets the documentation

and procedural requirements cannot be rejected merely because the reviewer does not agree with the amount of damages or the appraiser's conclusions of value.

If the reviewer questions the appraiser's conclusions of damage, he can, without being critical of the findings, discuss the assigned values or damages with the appraiser to determine that nothing has been overlooked. However, he must not give the appraiser any indication that the amount should be adjusted or changed, unless the appraiser discovers and admits during the discussion that something has been overlooked which causes the amount to be in error. Likewise, the reviewer should discuss with the appraiser any indicated allowance for non-compensable damages, omission of provable special benefits, or any portion of the appraisal which is possibly based on improper premise. If either situation applies, the appraiser should make any judgment correction that he feels necessary in a well-explained appraisal addendum. The addendum should be attached to and made a part of the original appraisal.

Appraisal instructions or a manual should assure the appraiser that his right to express valuation opinions and judgment findings without influence or pressure will be protected and that his work will not be rejected because the agency differs with his opinions and conclusions concerning values and damages.

If it is felt that an appraiser has used poor judgment in the appraisal of a parcel, the reviewer should obtain an additional appraisal to either confirm or disprove his belief. If an appraiser continues to submit work that reflects poor judgment, he should not be assigned to future appraisal work.

Appraiser-Reviewer Consultation

There are many circumstances that can make a consultation necessary between the appraiser and the Reviewing Appraiser. The two most common reasons are lack of understanding and inconclusive documentation.

When the Reviewing Appraiser fails to understand the appraiser's explanations, intentions or meaning, he should contact the appraiser in person and discuss the points that are not clear. If the reviewer feels that the appraiser was deficient or lax in his explanation, after hearing the

appraiser's clarification, he should ask for an appraisal addendum to better explain and clarify the confusing information in the appraisal. After this personal contact, for the sake of the record, it is desirable for the reviewer to write the appraiser a letter setting out the problem and asking for further details in an appraisal addendum. If it results that the appraiser's answer is rather simple, an addendum will not be needed; however, the appraiser should write a memo to the file setting out the explanation.

In every case, the points brought out that were not adequately covered in the appraisal and verbal explanations provided in an appraisal-reviewer consultation, must be reduced to writing and placed in the valuation file for the parcel involved. If there is enough confusion to warrant a consultation, then there is also enough to require written clarification for the record.

It actually goes without saying that if the appraiser cannot, or will not, explain his position in a reasonable manner, and if the point involved is of consequence, it will probably be necessary to reject the appraisal. In a case of this kind, good judgment will have to be applied and many factors considered in deciding whether it is in the acquiring agency's best interest to accept or reject the deficient appraisal. If it is accepted, the reviewer must write a memo to the file explaining: That the appraiser was contacted and an attempt made to clear up the confusion; why the deficient appraisal is being accepted; and the reviewer's explanation on the point that is confusing.

Another circumstance that could cause an appraiser-reviewer consultation is when the reviewer understands the appraiser's explanation and documentation, but feels that it is too brief, weak or inconclusive to support the appraised values or damages.

Again, a personal contact is necessary so that the reviewer can explain his position in detail. The appraiser should be asked for specific additional documentation, explanation or proof of value, whichever is needed. This should be provided as an addendum to the original appraisal, or after the personal contact, the request for it should be confirmed in a letter to the appraiser.

If the appraiser fails to furnish adequate

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additional information to reasonably support his conclusions, his appraisal should be rejected. Extreme care must be exercised by the reviewer so that he will not request or demand additional documentation merely because he does not agree with the appraiser's conclusions, although they are reasonably well justified and his reasoning is properly explained.

If the additional information furnished in the addendum places the appraisal in the position of being acceptable but still weak, the reviewer should include any additional support or proof of value that may be available to him in a memo to the valuation file. If substantial damages are involved or the appraised amount is questioned as not being reasonable, an additional appraisal should be obtained.

Throughout this consultation process, the appraiser and the reviewer should work together. It is essential that the appraiser consider the Reviewing Appraiser as a friendly and professional adviser, rather than a critic and an obstacle through which his work must pass. The reviewer must have a conscientious de-

sire to help improve the quality of the appraiser's work. Equally important, he must protect the appraiser from making undetected errors that might later prove embarrassing to the appraiser and the agency. If the reviewer displays the proper attitude, the appraiser should feel secure in knowing that his work will be reviewed by a capable, qualified individual who will allow him to correct any errors that are detected. The appraiser should strive to submit an appraisal that is as near to perfect as possible; the reviewer should not function as a proof-reader.

The feeling that should prevail during this process is that the reviewer and the appraiser are on the same side, that they are attempting to accomplish the same end. The reviewer is seen as a "buffer" between the appraiser and those who might have reason to look for an opportunity to find fault in his work. A mutual respect and professional relationship between the appraiser and the reviewer will enable both to successfully carry out their mission under desirable working condi-

tions.

Factual Errors And Legal Misinterpretations

There will be cases where appraisers err concerning plan interpretation, non-compensable losses, special benefits, personal property, zoning, factual data and in other ways where mere judgment is not a factor. When this happens, the appraisal must be rejected.

The error should be described in a letter to the appraiser in which the proper procedure and interpretation is also explained for that particular phase of the taking. Preferably, the letter should be delivered in person and its contents explained to the appraiser in detail. The appraiser should be asked in the letter to re-write the appraisal in accordance with the instructions. The original appraisal should be returned to the appraiser, unless it has been corrected by addendum or supplement.

Although the Reviewing Appraiser must be well versed in the problem areas of appraisal work, it is neither essential nor practical to expect that he be informed in

legal matters to the extent that he can make legal decisions concerning all involved appraisal problems.

Mathematical Errors

When small or insignificant errors in mathematics are noted which will change the total damages very little, if any, they can be corrected and initialed in red pencil by the reviewer. The reviewer should write the appraiser a brief letter explaining his corrective actions or furnish him a reproduction copy of the corrected portion of the appraisal.

When mathematical errors other than the very small changes as above are noted which do change the value or damage figure, or a component part of the appraisal, it should be returned to the appraiser for correction. This can be handled solely by correspondence if desired or in person with confirmation by letter.

If the error can be corrected in red pencil and initialed by the appraiser without cluttering the appraisal, such action should be permitted. It is important that all copies of the appraisal are corrected. If however, the error is carried through the appraisal and thereby affects other computations, the appraisal should be rewritten. The transmittal letter by which the appraisals are returned to the appraiser should specifically say what corrective action is necessary.

Inconsistencies Between Appraisals

Sometimes a difference will be noted in factual data and information furnished in two separate appraisals of the same property. When this occurs and it is not obvious which is in error, both appraisers should be informed of the differences and asked to recheck their work. The appraiser who is found to be in error will, of course, be expected to make the necessary corrections in the manner outlined above.

It is not unusual for one appraiser to advise in his appraisal, that certain information is not available, that applicable comparable sales do not exist or that other unavoidable weakness exists in the appraisal. By direct contrast a second appraiser of the same parcel may include the missing information and comparable sales in his appraisal.

When this happens and the omission is of consequence, a consultation with the first appraiser is in order. He should be informed of the information that was made available through the other appraiser's work, asked to confirm it and submit an

addendum or supplement to his appraisal in which proper consideration is given to the additional information, or explain why he does not consider the information applicable. If the reviewer feels that the appraisal deficiencies were entirely unwarranted as proven by the data furnished by the second appraiser, he should demand a complete rewrite of the first appraisal. As in previously recommended practice the deficiencies, conflicts and facts should be set out in a letter to the appraiser with specific instructions for corrective actions together with personal conference, if desirable.

Appraiser Collusion

When two appraisals are obtained and the explanations, documentation and valuation conclusions contained in both are so similar that collusion is indicated or suspected, the reviewer should call both appraisers for a consultation. The cause for suspicion of collusion can vary from a mere indication that separate and individual work was not performed to an almost undeniable certainty.

If it develops that the similarity was merely coincidental, which is entirely possible if such similarity is not substantial, of course no action should be taken, except that a memo should be placed in the file to extinguish any future suspicion of collusion concerning those two appraisals. On the other hand if the appraisers admit collusion, which should be clearly prohibited in the appraisal instructions, or if the similarity is so exact and extensive that the possibility of coincidence is ruled out, their appraisals should be rejected as a matter of principle and their appraisal fees denied. The mere fact that both appraisers arrive at the same estimates of value or damages is not necessarily an indication of so-called collusion unless the situation becomes repetitious.

The past record and ability of the appraisers, the seriousness of the violation and many other factors based on good common sense must be considered in deciding whether or not guilty appraisers should be given another opportunity to perform appraisal work for the acquiring agency. Needless to say, if the same appraisers are involved in collusion for a second time either individually or as a pair, they should be removed from the list of qualified appraisers and assigned no further appraisal work.

Summary

It is not logical to believe that any pre-

sentation concerning a complex subject covers every circumstance that may be encountered, and I do not make such a claim here. I do believe, however, that other situations not covered herein will be similar enough in principle to fit into one of the categories that I have discussed.

If the general rules and principles set out herein are followed when appraisal deficiency or error is noted, the reviewer cannot go far wrong and the acquiring agency will always have a valuation record that will protect and defend it from unwarranted criticism concerning land acquisition expenditures.

A very brief summary of those rules and principles are as follows:

- Estimates of property values or damages which are reasonably, well explained and documented are not subject to rejection or corrective action merely because the reviewer disagrees with the appraiser's valuation conclusions. At no time shall the reviewing agent attempt to influence the appraiser's judgment of value, if that judgment is properly supported.
- The reviewer should always make personal contact with the appraiser involved when deficiencies or errors in his work are noted or suspected.
- If it develops during the reviewer-apraiser consultation that errors do exist they should be set out in a letter to the appraiser, together with specific instructions concerning the corrective action to be taken. Such actions can vary from minor red pencil corrections in computations to rejection of the entire appraisal.
- After the appraisal is rewritten or other corrective action is completed, it must then adequately support the assigned value or damage figure. If it does not, it is still subject to rejection.
- The reviewer must never accept any appraisal that does not meet minimum standards of quality or that is not adequately explained and documented to prove to any future auditing agency that the appraiser at least thought he had good reason to believe that his valuation conclusions were reasonable.