

## PREPARATION OF TECHNICAL APPRAISAL REVIEW REPORTS

### INTRODUCTION

The reporting of the results of an appraisal review is one of the most critical efforts the professional review appraiser undertakes. The reviewer's efforts' in forming and setting forth an opinion as to the completeness of the appraisal report under review may have little meaning if the opinion is not merged into a readable review report that presents facts and conclusions in a logical and concise manner.

The methodology for performing a technical review falls into two different types: desk review and field review. There may be a combination of the two resulting in a partial field review. The mechanics of the technical review will vary depending upon the scope or nature of the assignment, the client, policy requirements, or the nature of the property appraised.

### GUIDELINES FOR PREPARING TECHNICAL APPRAISAL REVIEW REPORTS

Although not all reviewers organize their reports in the same manner, most review reports contain certain common features. The required common features are specified in Standard 3 of the Uniform Standards of Professional Appraisal Practice (USPAP). Appraisal reviews that comply with all the requirements of USPAP are acceptable reviews from the standpoint of technical review content. The following sections provide information required by USPAP. These sections are recommended to members of the American Society of Farm Managers and Rural Appraisers writing demonstration technical appraisal review reports.

The Handbook of Technical Writing, Brusaw, Allred, and Oliu, St. Martin's Press, New York, New York, Fourth Edition, 1993, is an excellent reference book and guide that contains numerous examples of writing various portions of technical reports. Reviewers are encouraged to use Brusaw as a technical writing reference when preparing technical appraisal review reports.

#### Qualifications of the Review Appraiser

A review appraiser is an appraiser who examines the reports of other appraisers to ascertain whether their conclusions are consistent with the data reported and with other generally known information (The Dictionary of Real Estate Appraisal, Third Edition, 1993). Several less formal definitions characterize the duties of a review appraiser. The technical reviewer is an appraiser who reviews and analyzes the relevant facts assembled by the appraiser and by the use of reason and exercise of judgment, forms an opinion or conclusion with respect to the real estate problem. The work of review appraisers can be summarized by saying they make a thorough and detailed analysis of appraisals submitted to them for review.

The reviewer is a state-certified general appraiser who is academically qualified in the appraisal techniques utilized in the appraisal report. State general certification implies a minimum level of education consisting of broad-based approved professional valuation courses. Additionally, the review appraiser should remain abreast of the profession by completing courses or seminars covering such topics as investment analysis, subdivision analysis, mineral property valuation, advanced case studies of a variety of property types, highest and best use analysis, or any suitable course work related to the types of appraisals the reviewer may be asked to technically evaluate.

Several years of specialized experience in the reviewer's field of employment is important to prepare the reviewer for the complexities of current appraisal assignments for a variety of clients. Court experience is helpful if the reviewer is expected to participate in judicial proceedings as an expert witness. Administrative or consulting duties in the reviewer's field of employment help round out the full range of valuation opportunities to which the reviewer may be exposed.

Some positive personal traits of a review appraiser include good verbal and written communication skills and the ability to convince, train, and persuade others. Exhibiting mature judgement in concentrating on the important aspects of the appraisal review process is a desirable quality.

The reviewer should have the ability to read between the lines which is often a characteristic associated with the logical, analytical methods of evaluation; closely akin to being intuitive. Above all, the review appraiser must have the confidence to authoritatively review another's work and provide constructive criticism in a tactful, responsible manner. Ultimately, the review appraiser must demonstrate competence, objectivity, fairness, and integrity as a professional.

One of the reviewer's responsibilities is to ascertain that the correct property was appraised. This objective is not as simple as it might seem at first blush. In addition to assuring the legal description is correct, the reviewer must know the estate to be appraised and ascertain if the appraiser has properly delineated the various sticks in the bundle of rights. These steps can only be accomplished when the reviewer is fully aware of what the appraiser's assignment was.

To ensure objectivity and independence in the review process and to preclude the appearance of conflicts of interest or wrongdoing, review appraisers should not:

- be responsible for negotiating the sale, purchase, or loan approval of the appraised property;
- review an appraisal prepared by the reviewer's supervisor;

- review an appraisal of a property personally and recently appraised by the reviewer;<sup>1</sup>
- review an appraisal prepared by someone who has recently reviewed your appraisal work; and
- participate in any appraisal or review activities which could give the appearance of a conflict with the Ethics Provision of the USPAP.

As with appraisers, the reviewer must not become an advocate. The reviewer's task is to objectively evaluate the technical aspects of the appraisal.

### Review. Procedure

The review appraiser must first become familiar with the assignment, the appraisal report, and the appropriate market area. Such familiarity is best achieved by reviewing the data presented and examining the appraised property and comparable sales.

Personal understanding of local economics which affect the real estate market is particularly useful. The reviewer is responsible for checking computations, the estate being appraised, deeds or options when provided, size, maps, and construction plans. The reviewer must evaluate the appraiser's qualifications; identify any legal matters needing resolution; and study the information, data, and analysis presented for qualitative and quantitative adequacy. Only then can the reviewer ascertain if the report conforms with law, regulations, institutional or agency standards, and USPAP.

Before approving a report, the reviewer must:

1. Read the report in its entirety, taking notes on items which may require further evaluation or meriting special mention in the review report. Ensure that the correct property is appraised; and that the estate appraised and the legal description in the final appraisal (as supplemented or amended) are identical to the property rights under appraisal.
2. Ascertain if the facts cited are correct, if the assumptions are valid and

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<sup>1</sup> The ASB disagrees with this. **Question:** An appraiser receives a request to review an appraisal; however, the reviewer has previously appraised the same property. Does the reviewer's prior experience with the property create a bias that then precludes an objective review? **Response:** No. Prior appraisal experience with the subject of the work under review might be considered an asset and may have contributed to the reviewer's selection for the assignment. Before accepting any assignment, an appraiser must be certain that he or she will be able to attest in the certification that the assignment results are impartial and unbiased. If the performance of the prior appraisal assignment creates a predisposition regarding appropriate and reasonable assignment results, the appraiser should decline the appraisal review assignment."

necessary, if the analysis and approaches are properly processed, and if the appraiser did a thorough job. Are the sales really comparable or cost estimates reasonable?

3. Analyze and correlate all facts and information available (within the appraisal report or otherwise obtained) to help evaluate the acceptability of the appraisal and value opinion. Has the appraiser properly applied the four tests of highest and best use?
4. Ascertain whether the value opinion is reasonable and supported by the appraisal, as well as other information available.
5. Strive to have all appraisal reports prepared to required standards and be unwilling to accept anything less than a fully supported appraisal report.
6. Ensure that you are competent or associate with a reviewer who is competent to evaluate specialist reports regarding resource appraisals (such as timber, water rights, or minerals) or other valuation peculiarities.
7. Approve, disapprove or recommend for approval/disapproval of the appraisal in accord with the appropriate language noted in USPAP.

Following evaluation of the appraisal, the review appraiser must prepare a written review or give an oral report in compliance with USPAP Standard 3 to document findings and support the reviewer's conclusion. The review appraiser should comment on the strong and weak points of the appraisal report and, as necessary, provide supplemental data and analysis. Finally, the reviewer may approve, accept without approval, disapprove, or become the appraiser for the assignment.

The level and type of review should be predefined. No misunderstanding should occur with respect to the type of review requested by the client. The scope of the review should be clearly stated to the client at the outset.

### Methods of Appraisal Review

There are generally three accepted methods for preparing a technical appraisal review: detailed (narrative), exceptional, and form. The narrative appraisal review report provides a detailed explanation of all facets of the review process from recitation of the assignment and summarizing key components of the property being appraised to itemized comments describing deficiencies or items worthy of particular commendation. This positive system summarizes the important elements of the appraisal, usually commenting on all parts of the appraisal, and records the review appraiser's actions, analysis, and conclusions. This is the type of review required for the Real Property Review Appraiser (RPRA) demonstration appraisal review report.

Conversely, the exceptional system of appraisal review records only significant and exceptional findings and actions taken by the reviewer. Reviews by exception must still comply with USPAP Standards Rule 3-2 regarding content, albeit in an abbreviated form compared with the detailed review. The exceptional system is often used for higher-level reviews within an organization when the first-level review is a narrative review report.

A form review further abbreviates the documentation associated with reviewing an appraisal report. The form review does not abbreviate the process. Forms are developed for specific institutional or agency needs and includes the Standard Appraisal Review Report form (SARR). Use of a form review requires only that the reviewer summarize some very basic information about the property which was appraised, then respond positively or negatively regarding each item printed on the form. There is opportunity to elaborate for items requiring special mention or clarification.

A tool which is useful for all three types of reviews is an appraisal review checklist. Checklists help a reviewer systematize the review process and ensure that no section is inadvertently overlooked and to help assure that the appraisal complies with the client's requirements. Strict adherence to a checklist, however, may be overdone and can result in the qualitative aspects of the appraisal report being shortchanged. The checklist does not determine the acceptability or unacceptability of the appraisal. It should merely be a tool to help the reviewer systematize the review process. Currently, no single review checklist is universally accepted. Most checklists are tailored to the specific criteria of the institution or agency that uses them.

Generally, an appraisal review need not duplicate the work that was adequately performed in the appraisal. The review report merely needs to summarize the appraisal so an individual can read the review and have a good idea of what the appraisal contains and how well it complies with the standards under which it was prepared.

As referenced earlier, technical reviews may be a desk review, a field review, or a partial field review. Following is a description of the major characteristics associated with these types of technical reviews:

#### Desk Review-

- made without field inspection of the appraised property or the sales used in the analysis;
- a review checklist is often used by the reviewer;
- data contained within the appraisal report may or may not be confirmed;

- additional competitive market data are not usually identified by the reviewer;
- calculations in the report are checked for accuracy;
- appraisal principle application and techniques are evaluated for their appropriateness;
- may include confirmation of compliance with particular client's policy requirements;
- normally conducted by government agencies, lending institutions, and others as a check on the appraisal process; and
- may result from a professional appraisal organization verifying a candidate's experience.

#### Field Review-

- the most significant difference between a desk review and a field review is the level of evaluation. In addition to the above items, a field review includes at least an exterior (if improvements are involved) property inspection of the appraised property and the sales used in the analysis;
- data contained within the appraisal report may be confirmed with independent sources; and
- additional competitive market data may be identified and analyzed by the reviewer.

#### Partial Field Review-

- may include inspection of only the appraised property or the sales, only the most comparable sales, or some combination less than a full field review.

#### Reviewer's Options and Actions

There are several options available to the reviewer on every appraisal review. At the outset of an assignment, the review appraiser must clearly understand the consequences of approving or disapproving an appraisal. The actions a reviewer may take when reviewing an appraisal are: 1) approval, 2) acceptance without approval, 3) disapproval, and 4) the reviewer becomes the appraiser.

#### *Approval-*

The review appraiser should approve or recommend for approval the appraisal report if it is prepared to the standards under which it is written, follows current corporate or agency policy, is based on the proper premises, adequately supports the value opinion, is consistent with the review appraiser's personal knowledge, and is in compliance with Standards 1 and 2 of USPAP. The review appraiser should not approve an appraisal with speculative or unreasonable limiting conditions and assumptions.

A review appraiser must not approve substandard reports. For approval, significant weaknesses, differences, and divergencies noted during the review must be resolved prior to approval.

The review appraiser must not approve an inadequate report or an inadequately supported value opinion unless the reviewer can support the value with personal analysis of facts and data cited in the appraisal, or from other independently derived information. The reviewer may add vital support to the appraisal by providing supplemental information or analysis and may approve the appraisal report citing the additional data or analysis as support so long as the appraiser's value opinion is not changed. When the review appraiser does identify the need for supplemental information or analysis, the reviewer must first attempt to have the appraiser of record improve the report to an acceptable standard. Each appraisal report should be sufficiently complete and thorough to support itself. While this is not always possible, the record must show that the value opinion is supported.

#### *Accept the Appraisal Without Approval-*

This option may be taken by a governmental agency simply so the appraiser gets paid for his/her services.

#### *Disapproval-*

If after diligent efforts have been made to get the needed support and improvements to an appraisal under review, the report still does not meet acceptable standards and the value opinion is not adequately supported, the review appraiser should disapprove the appraisal report with full documentation of the bases for disapproval.

Some states require their state-certified and state-licensed appraisers to report (often under statutory immunity) any real estate appraiser who has acted in a manner which does not meet the generally accepted standards of professional appraisal practice. Additionally, some states require reporting of real estate appraisers who have performed appraisal services beyond their level of competency. Reviews which disapprove an appraisal report should be written with state reporting requirements in mind so the report may be provided to the state licensing authority.

#### *Reviewer Becomes the Appraiser*

In certain situations the review appraiser may provide his/her own opinion of value. This value opinion may be the same or different from that cited in the appraisal report under review. The opinion of value set fourth by the review appraiser is a second appraisal of the property. The review appraiser must develop his/her opinion of value under Standard 1 of USPAP and report the results under either Standard 2 or 3. At the minimum, the appraisal report must meet the content requirements of a summary appraisal report. Some of the analysis and data used in the original appraisal may be accepted by the reviewer and used in his/her appraisal report by use of an extraordinary assumption about the validity of the original data.

### Technical Review Report Format

Following is a sample technical review report format for appraisal reviews meeting the requirements for the Real Property Review Appraiser (RPRA) accreditation. The demonstration review report should reflect the advice provided in these guidelines.

#### TECHNICAL APPRAISAL REVIEW

The appraisal report for the \_\_\_\_\_(property)\_\_\_\_\_ was prepared by \_\_\_\_\_ (name, title, company, address)\_\_\_\_\_. (Identify the client requesting the review report and intended users of the review report, along with the intended use of the reviewer's conclusions and purpose of the review).

1. Appraisal Summary- (This section is mandatory, include each item appropriate for the property appraised.)
  - Owner of record
  - Estate appraised
  - Size of Subject or: 1. Larger parcel; 2. Remainder; and 3. Size of taking
  - Highest and best use or permitted use: 1. Before taking; and 2. After taking
  - Improvements
  - Date of value
  - Value of total property or larger parcel and remainder (Identify and give estimated value opinions for major items such as land, timber, improvements, damages and benefits)
2. Scope of Review- (Include the following statement with relevant options)
  - My review of this appraisal is based on the materials submitted in the report,

discussions with the appraiser, discussions with (identify anyone consulted pertinent to the review), and my personal knowledge of the local real estate market. As the review appraiser I made (no field review/a partial field review/a full field review).

3. Property Data Summary- Briefly describe size, location, configuration, vegetation, improvements, topography, access, water influence, available utilities, view and other amenities. State the current use of the property. Summarize and comment on the adequacy of the highest and best use analysis.
4. Estate Appraised- Define the estate as fee simple, surface rights, leased fee, leasehold along with encumbrances such as road/utility easements, conservation easements, etc. If a partial acquisition, describe the impacts of any project influence, if any.
5. Valuation- Include approaches to value, last sale of subject, number of sales, factors that influence value, appraiser's analysis, and value opinions.
6. Comments and Recommendations- Comment on overall quality of the report and market support for conclusions. Cite high and low points, if applicable. Recommend/approve the opinion of value or, if appropriate, disapprove utilizing the recommended language in USPAP for both options. If disapproved, cite specific fatal deficiencies and indicate how they can be rectified.
7. Certification- Include a signed certification in compliance with the standards under which the review report was prepared.
8. Conclusion- A short section on what your actions were in regards to the appraisal report reviewed.

### GENERAL SUGGESTIONS

The technical appraisal review report reflects professionalism as an appraiser. Organize the report in a logical manner consistent with USPAP Standard 3 clearly stating the facts, assumptions and conclusions. The importance of correct spelling, grammar, punctuation and sentence structure cannot be overemphasized.

The following suggestions may also be helpful:

- have the report proofread carefully, preferably by someone not involved in writing the report;
- rarely are first drafts acceptable as final products. Edit the report carefully to make sure the technical review is being presented in a concise, clear manner;

- type the report, use a word processor, or have it professionally printed;
- separate sections of the review to enhance the report's appearance;
- always number all pages; and
- avoid using technical terms prior to defining those terms.