

The Review and You

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The specialized field of appraisal review is one that many IRWA members contend with daily. Those working in government, the utility industry, or in right of way consulting firms typically have a need to make sure contracted appraisals are in compliance with various regulations and to gain a level of confidence in the final appraisal work product. Reviews may occur in varying formats such as standardized forms or more complete descriptive narratives.

They may well 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.

A review may be performed for several reasons, including:

- v Local or state regulatory compliance.
- v Adherence to USPAP (The Uniform Standards of Professional Appraisal Practice).
- v To gain a level of confidence in the work product and final value estimate.
- v To better understand the reasoning and logic behind the opinion of value.
- v To demonstrate an extra measure of care when presenting property owners with potential offers (catching and correcting errors in the report BEFORE the owner has a copy of the report).
- v To ensure that the appraiser fulfilled assignment requirements such as hypothetical conditions and extraordinary assumptions.

Regardless of the exact reasons, 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.

For several years the review process has been divided between those referred to as administrative reviews and those commonly called technical reviews. Both may be completed in office or 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 are simply checking the appropriate boxes to make sure that various elements have been addressed. They provide a necessary role but one that is more basic.

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 questions that can only be answered by someone with a more intimate knowledge of appraisal and who has had more specialized training.

Additionally, the reviewer may be required to not only comment on the reasonableness or competency of the work of another but develop an independent estimate of value if asked to do so by the client. To quote 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 being restrictive, it is allowing appraisers the opportunity to define for themselves the nature of the work involved. USPAP simply asks that full disclosure to the client is made whatever the type of work involved.

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. Is the review to include all or only part of another's work? Is this a desk review or does it involve a field inspection?

Will the reviewer be including their own value opinion? All of these questions can and should be answered early on in the Scope of Work section of any review. Any 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 if they were reported properly and communicated in an effective manner. This after-all is the real heart of a review. In short, did the appraiser fulfill the assignment standards and parameters in a logical and reasonable fashion?

As with a standard appraisal, 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, as summarized below:

Identification of the reviewer's client.

Identification of the potential users.

v Here is the point at which the reviewer should disclose the extent of the review product. Is it a review considering only the competence of another's work or will it include the reviewer's own opinion of value?

Identification of the subject of the review.

The effective date of the review.

Property and ownership interests appraised in the work under review.

Date of the work under review and the effective date of the opinion or conclusion of the work under review.

Appraiser who completed the work under review unless it was withheld.

A determination of the scope of work necessary to produce credible assignment results in accordance with the Scope of Work Rule.

Other portions include analysis and opinion as to the completeness or appropriateness of various elements under review.

The reporting of review results include many of the same points as above under rule 3-2:

Identification of the client

Identification of the intended use

Identification of the intended users

Identification of the subject of the review

Effective date of review

Property ownership interest appraised in the work under review

Date of the work under review and the effective date of the opinion or conclusion of the work under review.

Appraiser who completed the work under review, unless name withheld.

State the scope of work to be used to develop the review.

State the opinions, reasons, and conclusions required in Rule 3-1 (d-g) as above. This primarily concerns opinions as to the appropriateness, completeness, etc. of the various elements of the work under review.

Include all known pertinent information - allows client/users the ability to understand the rationale for the reviewer's opinions and conclusions.

Include a signed certification in accordance with rule 3-3.

v Note – a sample certification and the elements it should include is provided on page U-34 of USPAP.

Rule 3-4 focuses on the requirements of an oral review. [2]

Notice that many of the requirements for the development and reporting components of the review 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? Many journalism courses used to emphasize the importance of who, what, why, where, when and how and this is a variation of that call for thoroughness.

Of course, other ingredients 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 find poor maps, photos that are blurry or graphs that are may be visually attractive but say very little. Add to this the age old problem of narrative that is 'canned' and overly simplified and soon the entire report becomes hard to follow. Given the abundance of online data and the ease 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 mastery of the subject material. Even forms may be augmented with addenda sheets that do not take that 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.

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 and between the phone calls and needed correction pages how much time was really saved? The same should apply to reports produced by reviewers.

As a reader, tell me more about which comparables were relied upon and those that were somewhat less influential. What were your thoughts on the subject and how it relates to the marketplace? Additionally, tell me where the strong points are as well. Reviewers do not need to write a small novel but do need to include information to help the reader follow the 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, 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 for the appraiser to 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 I’s 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.

Several of the better reviewers that I know of 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 can be no doubt that a review appraiser will employ skills that may not be common 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.