Memo to Appraisers

Thoughts about Writing More Useful Appraisal Reports

June 2013 by William L. Pittenger, MAI, SRA

In a departure from the real estate and economic topics I usually explore in this forum, this article is about neither. It is a message to my appraiser friends and colleagues with a few tips for writing more useful and client specific appraisal reports.

When writing appraisal reports, there is a balance between consistency and tailoring the information in the report to the client's needs. That balance is sometimes difficult to find. In general, our client's prefer a consistent, predictable and easy to read format where they can find relevant information appraisal after appraisal. At the same time, they expect the appraisal report to be relevant to their specific need for information. Too often, however, the quest for consistency goes too far and results in a one size fits all appraisal report which is destined to leave unanswered questions and which is almost certain to be under-utilized in the client's' business decision process. We owe our clients more.

Function of the Appraisal and Scope of Assignment. When starting an appraisal assignment, we should clearly understand the function of the appraisal. That is, "why did the client commission the appraisal?" "What is the nature of the client's problem and how can we help solve it?" There is always a reason and we need to clearly understand what it is. That understanding will help us frame the appraisal problem; decide what we need to do to solve the problem and allow us to articulate those steps clearly in the **scope of the appraisal** section of the appraisal report.

Too often, however, we use lame statements such as "the function of the appraisal is for internal decision-making." That statement says nothing except that we know little or nothing about the client's need for information. For example, if our client is a bank, do they propose to make a loan secured by the property? If so, we need to identify the property and market characteristics that might jeopardize loan repayment. Is the appraisal for loan workout purposes? If so we may need to help our client identify impediments to sale. Is the appraisal for insurable value? If so, replacement cost takes on more significance. Even if the appraisal was commissioned by a private party, we need to understand the function. It might be used for a wide variety of purposes including, but by no means limited to, buy, sell, insure, taxation and much more. The reasons are many and varied. We need to both identify and understand what information is relevant to our current assignment.

Keep in mind that appraisals are prepared every day for potentially hundreds of reasons and we should know the reason underlying the appraisal we are currently researching and presenting. When we know that, we can better frame the assignment and make decisions (in consultation with our client when appropriate) about specific information needs, depth of analysis, depth of reporting and much more. Most of all, we can avoid the trap of writing a one size fits all appraisal report or one that has been reduced to the status of a commodity.

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Exercise caution when using a previous appraisal report as a template for a new appraisal even if the new appraisal is an update. Using a previous appraisal may save a little report writing time but then again, the hazards and disadvantages could outweigh any time savings. Perhaps the most significant hazard is not re-checking each and every fact and conclusion reported previously. Properties and markets change and sometimes change quickly. Additionally, using a previous appraisal can lead to repetitive mistakes. It can also lead to awkward reporting if you are cobbling together paragraphs from previous reports; especially those that may have been written by an associate. We all have a unique writing style and assembling several styles can be clumsy and cumbersome.

One of the most egregious illustrations, I've seen over the years was in the appraisal of an office building. The same appraiser had appraised the property for the same bank for three years in a row. That bank was acquired by another bank and in the due diligence process, the acquiring bank discovered a $9 million dollar error. The appraiser had double counted rent and had done it for three years in a row with no one catching it. He also overlooked a land use change which would frustrate a new buyer's expansion plan. The repetitive mistakes had a profoundly negative effect on value not to mention the appraiser's credibility. A standards complaint followed and a lawsuit is currently wending its way through the courts. The bottom line is always check everything and never assume you got it exactly right the last time.

Lipstick on the pig. Some appraisers are reluctant to be too specific in their reporting for fear of being wrong and being criticized. They want to leave themselves a little wiggle room. Indeed, that ploy is certainly not unique to appraisers. Years ago during the thrift crisis of the 1980's I worked for a federal bank regulatory agency and was on assignment in Washington, D.C. helping write regulation. I was working on one of the many implementing regulations for FIRREA, The Federal Financial Institutions Reform, Recovery and Enforcement Act of 1989. I always prided myself in my ability to write clearly. Indeed, I try to always write in a manner that I cannot possibly be misunderstood (to paraphrase 19th century author Robert Louis Stevenson). After one particularly challenging assignment, my manager, a high ranking agency official, offered me this advice. *"Son. This is far too clear. We need to leave ourselves room for interpretation – a little wiggle room."* I've never forgotten that advice. In fact, I've worked consciously to *not* follow it.

In my view, we, as appraisers, have an obligation to write so we are understood and cannot possibly be misunderstood. We should write clearly, concisely and avoid ambiguities and so-called "weasel words." Clarity usually comes from having confidence in our research, analyses and conclusions.

Occasionally, however, our conclusions are necessarily uncertain due to ambiguous or even non-existent property and market information. Indeed, there is nothing less perfect than the real estate markets in which we work. Nevertheless, we need to make the absence of data clear to our readers and most of all articulate the risks associated with no data or ambiguous information to our client.

In one troubling example from the early days of The Great Recession last decade, I reviewed an appraisal of a very large, proposed "Lifestyle Center." A Lifestyle shopping center, sometimes called a "boutique center" is typically a mixed use commercial development combining some traditional retail tenants with others oriented toward upscale suburban consumers. The concept was very popular in the 2000s.

The well qualified appraiser could find very little relevant data to compare with this type of property. Why, because the concept had run its course by the time the appraisal was being prepared. Moreover, a very ugly recession was then emerging. He knew it. I knew it but instead of telling the real story, the appraiser substituted rentals, sales and other data from then more current sales of traditional food and drug anchored shopping centers.

The short story was that so-called lifestyle centers had run their course in the then current real estate cycle. There was clearly no need for another. The appraiser tried to put the best face on a bad situation that was not of his making by putting "lipstick on the pig" and not communicating with the client the absence of demand for a new lifestyle center.

The bottom line is tell it like it is. After many years of reviewing appraisal reports, I have found that "the less they know, the more words appraisers use and the less specific they are." Tell it completely and in a true, rational, logical and understandable fashion. Always avoid putting lipstick on the proverbial pig.

Avoid Appraiserspeak. Some appraisers have developed a lexicon all their own. Oftentimes the choice of words is odd at best and non-specific or potentially misleading, at worst. For example, *"the comparable is superior to the subject by reason of size."* Wrong. The comparable is simply *larger* than the subject. The subject is inferior in age. Again, no, it is simply *older*. My value conclusion reflects $100.00 per square foot. No. It *is* $100.00 per square foot. The list goes on but the bottom line is use main stream words that a typically informed reader will understand and don't call attention to what some might consider an odd choice of words.

Watch for more in this ongoing series of appraisal preparation and report writing tips.