

Draft appraisal reports should be handled with care

Recently, the Investigating Committee has investigated a number of complaints where two or more appraisals, done by the same member, on the same property, have been completed within a very short period of time – in some cases, within days or weeks of each other. While that may not be unusual, the complication arises because the reports are at variance with each other in terms of wording and facts, which could lead to an accusation that one, or both, of the reports is misleading.

Usually, what has happened in these cases is that one of these reports was intended to be a 'draft,' but ended up in the hands of the client/public as an appraisal report, which is then, of course, subject to the *Canadian Standards*.

Each day, appraisers working in private practice encounter a variety of situations, some of which may not be definitively outlined in the *Standards*. To avoid these situations, the following should be considered as a guideline.

In the Volume 51, Book 1, 2007 edition of the *Canadian Appraiser*, we discussed how to handle partially completed appraisal reports. (*Partially Completed Appraisal Reports*, Page 32, Book 2, 2007 http://www.aicanada.ca/e/pdfs/Can_App_Vol_51_Bk_2_15.pdf) These are different from draft reports. The circumstances surrounding whether or not providing a draft report is appropriate would be based on the



'reasonable appraiser' test and the intended use and user of the appraisal report.

When is it appropriate to provide a draft report to your client? These instances may include situations when the facts of the property may be in question such as:

- a retrospective report where the dwelling no longer exists or has changed substantially from the effective date to the inspection date, e.g., water or fire damage;
- a marital dispute where the client no longer resides in the home and there may have been changes to the property from the date of separation, date of marriage, or other effective date;
- difficult assignments where

wording may be critical, e.g., expropriation, legal purposes; and

- instances where it may be reasonable for a client to request that the appraiser elaborate on rationale, research or methodology, e.g., work prepared for court or legal testimony.

Normally, it is not appropriate to provide a 'draft' report for mortgage lending for a financial institution or for sale/marketing purposes for a private client.

In the case of a retrospective report, or where the facts of the property may be in question, it may be easier to complete the description portion of the appraisal report (up to the valuation section)

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and have the parties agree on the factual content of the appraisal. The valuation section would not necessarily be completed at this time. It may be more difficult for the parties to dispute the value later, if they have had an opportunity to review, comment and contribute to the reported facts of the property. Once the report is finalized, if the facts of the property are called into question, it can often lead to a client or reader questioning the credibility of the entire report, even though the discrepancy would not have any influence on the value.

A change of wording in a report when it is in a draft form is much less complicated than a change to a signed, sealed and delivered report. Think about explaining to a judge or the Investigating Committee why a notation on your appraisal report states 'revised.' Or, try explaining to the Investigating Committee why there are two signed appraisal reports issued on the same property, on the same day, with the same value, but there is a variance in the wording and facts between the two reports.

The draft report may be provided in part or in whole, depending on the intended use and user of the report, along with the reasonable appraiser test. Each page that is provided should be clearly marked with 'DRAFT – date.' If more than one draft is provided, mark '2ND DRAFT – date.' Keep either a hard copy or a PDF copy of each draft that is released. These become part of your work file (as required under 4.2.9 with Comments 5.9 – with particular attention to 5.9.4 and 5.9.6). **Never sign a draft report.**

Providing a draft report is a business decision that allows the client to contribute to and review the report before it is finalized. It should be clear to the client when the draft is delivered that, although wording or facts may be open for discussion, values are not.

When dealing with 'drafts,' taking some of these precautionary steps should minimize the chances of a complaint being submitted to the Appraisal Institute of Canada for investigation, with the referenced report as evidence. 🍷

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