

Challenges to our professionalism

By Darrel Mitchell, AACI
Property Agent – Appraiser, Peace River, Alberta

As an AACI member working for the Government of Alberta, which hires appraisers to prepare reports based on the *Expropriation Act of Alberta*, I have received reports which do not meet the requirements or needs of the assignment. Some reports have caused concern for the overall professional image of the Appraisal Institute of Canada (AIC).

I have asked others (e.g., those in government and the legal system) for their impressions of the appraisal work they review. Their answers supported my own findings, and urged me to write this article in the hope of raising the standard and quality of work AIC members produce.

The courts look to experts to provide clarification of the appraisal of real estate questions before the courts. The AIC and its members have worked hard to build the image that AIC members are the best professionals to use in this type of situation. When our members do not live up to this standard, the courts are highly critical.

The primary areas of concern are in the adjustments used, and in the appraiser's inability to support those adjustments and to explain why they were used and how they were derived. This comes after the fact that the explanations and analysis were not adequately explained or laid out in the report in the first place, so that the questions do not have to be asked. One lawyer mentioned that this is the largest hit to the credibility

of the appraiser and the reliability of the report, which can turn the outcome of the proceedings in a different direction from what was anticipated.

Some examples of why I believe the appraiser did not meet the level of expertise expected in this type of assignment are stated below.

The assignment

The assignment was to estimate market value for a country residential property on 10 acres. There were a number of outbuildings of various ages and sizes. The house was built in the 1960s and had substantial upgrades in 2000. It should be a fairly straightforward assignment. The landowner wanted a full buyout, which

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reduced or eliminated costs that are applicable under the *Expropriation Act*.

Questions arose when the appraisal was done with the cost approach alone. First, this is an older home with varying degrees of depreciation that are difficult to measure accurately. Second, there were a number of sales within the immediate and general area. When questioned why he had not used the direct comparison approach (the method expected), the appraiser said he did not believe that any of the sales were comparable (another appraiser who did a subsequent appraisal on this same property did not have any trouble finding comparable sales). Apparently, the comparable sales did not match his estimate based on the cost approach.

Concerns

This was an assignment which may have gone before the courts. The type of evidence or support for a cost approach conclusion is extensive. Saying that the appraiser used a cost manual and the numbers obtained were supported by local contractors is not sufficient to support the accuracy of the estimates provided. No contractor names or copies of the quotes were provided. There were no details pertaining to how the depreciation was calculated, and no explanation of the appraiser's conclusion.

There has to be good, reasonable support for large adjustments. I had one report done on a country residential property that

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made adjustments for location differences in the amount of 60% and 70%. The only explanation was that the comparables were in inferior locations to the subject.

An appraiser was doing a country residential property and used three non-arm's-length sales, when only four sales were used, and further complicated the issue by using adjustments of 50% and 60% for motivation and condition of sale. No other explanation was provided. There was no paired sales analysis and no discussion with the parties to the agreement. Additional damages applicable to the *Expropriation Act* were based solely on what the landowner said the compensation should be – no discussion or data were supplied to show how the appraiser confirmed that the owner's estimates were reasonable in the marketplace.

These incidents raise concerns for the perception of AIC members and their work. A change in perception affects appraisers across

the spectrum, from new appraisers to senior, experienced appraisers.

The department I work for can reject these appraisals for what we deem to be incompetent or misleading work; however, that does not solve the problem of how the industry is perceived when such appraisals are provided to the marketplace, particularly to sophisticated users of appraisal reports. There are other organizations trying to make inroads into the property appraisal industry. Incompetent work lacking expertise by members of the AIC will make it easier for these organizations to make gains at our expense.

There have been too many incidents where the work quality falls below the required and expected standards. This tarnishes our reputation as a professional organization. If we want to retain and build our reputation, we must be diligent and we must provide expert work. 🇨🇦

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Editor's Comments Related CUSPAP Standards

A consistent phrase used in the *Standards* is the requirement to “describe and analyze” market data, market conditions, and valuation practices. The overall goal is to ensure that the report is credible and not misleading. Here are some specific *Standards* which are related to the author's article.

Appraisal Standard Rule 6.2.15: In the report, the appraiser must describe and analyze all data relevant to the assignment (see *Standards Comment 7.16*).

7.16.1: The appraiser must take reasonable steps to ensure that information and analyses provided are sufficient for the client and intended users to adequately understand the rationale for the opinions and conclusions.

Appraisal Standard Rule 6.2.18: In the report, the appraiser must detail the reasoning supporting the analyses, opinions and conclusions of each valuation approach (see *Standards Comment 7.19*).

7.19.1: Reasoning requires the logical review, analyses and interpretation of data in a manner that would support the conclusions, not mislead the reader, and be to a level consistent with the “Reasonable Appraiser” standard.

Appraisal Standard Rule 6.2.17: Appraisers must provide support for exclusion from the appraisal of one or more approaches to value.