



Competency and the appraiser

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The concept of ‘competency’ is becoming commonplace across numerous industries and professions. Viewed on a spectrum, a greater (or lesser) level of competence results in higher (or lower) quality of outcomes and results. Competency results from the combination of three specific elements: knowledge, skills and experience.

Consider the example of becoming a fully competent chef: one must understand the steps and processes associated with crafting a meal (knowledge), be able to combine ingredients and complete the tasks required (skills), and have already prepared several meals in the past (experience). It would be anticipated that, over time, a novice (less competent) chef could acquire the knowledge, skills and experience to become an expert (more competent) chef.

In a similar manner, the level of competence of an appraiser denotes the type of work in which he or she can engage and requires understanding the limits and constraints associated with his or her scope of practice. Toward providing a clear demarcation of competence within the Canadian appraisal industry, the Appraisal Institute of Canada (AIC)

has identified required levels of (and limits to) competence through the CRA and AACI designations, including the option for AACI-designated appraisers (AACIs) to review and co-sign appraisal reports on behalf of CRA-designated appraisers (CRAs) for more complicated assignments beyond the CRA scope of practice. Historically, failing to fully appreciate one’s own level of competence (and associated limits and constraints on scope of practice) has landed both CRAs and AACIs in trouble with professional practice complaints.

Under the *Canadian Uniform Standards of Professional Appraisal Practice (CUSPAP) 2018*, competence is defined as “having sufficient knowledge, skill and experience required to perform a specific assignment.” While most appraisers are adept at assessing their competence in a general sense, difficulty arises when appraisers undertake assignments where they believe they have sufficient competence, but actually do not. This could also extend to not partnering with a more competent appraiser and/or engaging in an assignment beyond the scope of the CRA or AACI designation. The following are examples of actual cases that have been reviewed by the AIC Investigating Sub-committee.

One example of a common error that results in a professional practice complaint is when a CRA takes on appraising a residential property located on a parcel of land that is zoned for a commercial, institutional, or industrial use. A CRA may be able to appraise the property where the zoning permits *only* a residential use. If the zoning permits only a residential use as an ancillary use to a commercial use, then the highest and best use as a residence becomes questionable. Furthermore, if the residence is in an area of transition, with surrounding uses being commercial in nature, the question of highest and best use must also be further examined. Is the land ‘as vacant’ as a commercial use more valuable than the improved property with the house?

Related examples include a commercially zoned property with a single-family dwelling and a commercial garage, or a property with main floor commercial use and second floor residence. From a zoning perspective, the residence is a secondary use, with the commercial use being primary. As such, an assumption cannot be made to appraise the property with a residential highest and best use. In non-urban settings, a farm property with

a residential home on-site requires determining if the residence is a primary or auxiliary use. Likewise, when valuing an income-producing property that presents large family dwelling, such as a care home, purpose-built daycare, or bed and breakfast home, the highest and best use of this type of property cannot be assumed to be a single-family dwelling. These are all additional examples where a CRA is expected to have an AACI review and co-sign his or her appraisal report.

It is also common for lenders to place pressure on CRAs (rather than AACIs) to complete a residential appraisal of complicated properties to reduce their costs and provide quicker turnaround. The lender will often request that a CRA include a hypothetical condition and extraordinary assumption that the residential use is permitted. In this instance, a key consideration is whether or not this assumption is actually possible or probable; if not, it cannot represent the actual highest and best use. As a result, it is important that an appraiser thoroughly checks the zoning of a property, understands the allowable use(s) and characteristics of the neighborhood, and establishes a reliable and probable highest and best use of the property at the time of the assignment. By understanding these factors, appraisers can assess if they are sufficiently competent to complete the assignments or if the reports need to be reviewed and co-signed by an AACI.

Another type of complicated assignment are four-plex buildings and condominiums. When there are multiple four-plex buildings associated with a single property, a CRA may be able to appraise a single four-plex building based on the extraordinary assumption (hypothetical condition) that it had been subdivided from the larger parcel at the effective date, but should be very clear that the final hypothetical current market value estimate for the single four-plex

should not be multiplied by the number of buildings on the property to arrive at a value estimate for the whole project. Similarly, it is inappropriate to appraise a single unit in a condominium and imply that value can be multiplied by the total number of units to arrive at a total value estimate for the entire condominium.

Zoning considerations are also a complicated component. For example, a CRA may be asked to appraise a vacant, residentially-zoned (single-family dwelling) site on the corner of two major thoroughfares. Given the size of this parcel and the prominent corner location, it is important to carefully consider the highest and best use of the site, which may instead be for development with a small apartment project, several homes, a small commercial development or a mixed-use building. If the most likely purchaser of the property might apply for re-zoning to permit a use other than a single-family dwelling, review and co-signing by an AACI may be required.

While these examples apply to CRAs, there are also complicated assignments that may be beyond the competence of an AACI and suggest partnering with a more senior (more competent) AACI. One example is where an AACI was asked to appraise an industrial distribution property, which had been improved with a distribution building on a large parcel

of land. The AACI determined there was excess land and made an assumption that subdividing the excess land from the parcel was the highest and best use. The AACI did not investigate whether or not the property could legally be subdivided and how that would affect the existing property once the land was subdivided. After the subdivision, there was no room to allow for a tractor-trailer to manoeuvre on the site. As well, the AACI did not add in the costs of development levies associated with the subdivision. As such, the AACI did not possess the necessary competence to complete this assignment given that the costs associated with subdividing the site were not addressed and the requirements for highest and best use once the excess land was subdivided were not fully understood.

In these examples, the highest and best use is the primary factor in determining value, regardless of the client's direction, intention or otherwise. When presented with a complicated assignment, the appraiser (CRA or AACI) may want to decline the assignment or have a more competent AACI review and co-sign the report. Like crafting a delicious pizza, competence comes over time with increased levels of knowledge, skill and experience, learning from and in partnership with those who are more competent. ■