

NATIONAL ASSOCIATION OF APPRAISERS

appraiser focus

magazine

Appraising in the Past: A Look at Retrospective Appraisal Assignments

How to navigate these often tricky appraisal assignments and why you need to know

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Welcome New Board Members

The NAA Announces its new Board of Directors



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MNAA



Whitney "Blair" Dingeman
MNAA



Thomas "Hal" Humphreys
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New board members are sworn in at the ACTS Conferences



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Bryan Reynolds, MNAA

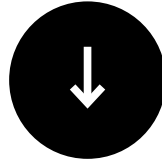
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A NOTE FROM THE PRESIDENT



What a ride, one with many turns and loops offering excitement and fear along the way. One of those that, when it's all over, you're glad you took the seat and wish you could do it all again. This is my best description of the last two and a half years that I spent serving as President of the great organization of appraisers known as the National Association of Appraisers.

As I reflect on this journey, I am honored and proud to have been given the opportunity to serve and provide leadership to a great board and membership association. We have accomplished so much in a short time and hopefully benefited most members and other appraisers along the way.

As my term as President of this incredible association ends, I want to take a moment to reflect on the tremendous accomplishments we have achieved together. Through our collective efforts, we have made a meaningful difference in the lives of countless individuals. We have provided vital assistance to those appraisers in need, advocated for important causes, and raised awareness on critical issues facing our profession.

Together, we have worked tirelessly to make a positive impact and create a brighter future for all appraisers and users of appraisal services.

Here's an overview of all we have accomplished as an association during the last two-plus years:

- Established an associate member designation, which is a new membership level for appraisers in training or those aspiring to become an appraiser
- Formed The Appraisal Relief Fund
- Created highly successful live and silent auctions and 50/50 events for fundraising
- Formed The Appraiser Trainee Committee
- Installed the NAA Ambassador Program
- Brought back the print version of Appraisal Focus

- Rebranded the 411 Newsletter to Appraisal eNews
- Increased the size of the NAA Board of Directors
- Created the Appraiser of The Year Award
- Established The President's Award
- Created the George Harrison Scholarship Fund
- Increased the overall membership of the association
- Reconstructed and reestablished all committees

As I step down from this role, I want to express my heartfelt gratitude to each one of you. Your support and dedication have been the driving force behind our success, and I am honored to have served alongside such an amazing group of individuals.

I am confident that our association will continue to thrive and grow, and I look forward to watching its continued success in the years to come. Thank you for the privilege of serving as your President, and for the incredible impact we have made together. ■

Bryan Reynolds, MNAA
President, NAA



Connect with me about how to get involved with the NAA. Reach me at bryan@reynoldsappraisalservice.com.

ON THE COVER

Appraising in the Past:
A Look at Retrospective
Appraisal Assignments



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MEET THE NEW PRESIDENT

JOSHUA WALITT

Q&A with the NAA's Incoming President

Tell us about yourself and your career in appraising.

I live in Grand Junction, Colorado, which is located in a beautiful valley in western Colorado, so far west we are almost in Utah. Although most people associate Colorado with snow, we actually get little snow in our area; technically a desert area, we have irrigated areas with wonderful orchards, desert areas to explore, and the largest flat-top mountain in the world with great forest hikes. My wife, Kelly, and I have two children, Emma and Ava. We have family nearby and appreciate that our girls have been able to have their grandparents in their lives. I grew up in Connecticut, but found Colorado Mesa University, met my wife at college, and we've been in Grand Junction ever since. After working at local branches of a national bank in and after college, I decided to explore something new. So, I talked to a friend of mine and asked about his job: appraising. I trained, became an appraiser, gained more knowledge about compliance and regulatory issues, became a compliance manager, and then formed my own consulting firm where we assist various clients on valuation, compliance, and regulatory issues.

What do you think are some of the most pressing issues facing real estate appraisers right now?

There are many moving parts right now. At this moment, the mortgage market has slowed and many appraisers are feeling the crunch, with some having focused solely on mortgage appraisal over the past years or perhaps their entire career. There is a rush to learn about other types of work. Another issue is the changing landscape of forms and processes, especially in the lending space. We can't ignore technology, whether that relates to gathering property information, analyzing data for efficient and repeatable results, or even writing reports. At the same time, we need to recognize that we are at a "spaghetti on the wall moment," meaning we are throwing a lot of solutions against the wall and seeing



what sticks. Balancing our practices with new asks from clients is a difficult inflection point. Also of concern are the bias and discrimination allegations. Appraisers must continue to be part of the conversation so all parties, the public, regulators, appraisers, and others, fully understand the broad issues as they relate to not only individual appraisers but also the profession as a whole, namely the methods appraisers follow.

What do you hope to accomplish with your colleagues at the NAA in the coming year?

Although it sounds simple, I have found a distinct lack of information and information sharing within the appraisal profession. I see a year of sharing any and all critical information, such as material on trainees, supervisors, regulations, guides and handbooks, standards, methods, technology, and many other topics. As professional appraisers, we should have the information at our fingertips to do our work correctly, efficiently, and in a manner that is consistent and repeatable.

How do you suggest NAA members get involved?

First, join your state coalition or association. (Or, if your state does not have one, our Board of Governors can assist you in creating a state association.) It's best to have both national and state affiliations. Second, volunteer your time with your state association or the NAA. State associations and the NAA are volunteer-based. Get involved!

INTERESTED IN WRITING FOR APPRAISER FOCUS?
 REACH OUT TO US ABOUT SHARING YOUR IDEAS IN PRINT.
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Timothy C. Andersen, MNAA
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Timothy C. Andersen, MNAA, has been a real estate appraiser and consultant since 1986. He has SRPA and MAI designations and is an AQB Certified USPAP instructor. Andersen is an active member of NAA, an affiliate member of the Association of Texas Appraisers and an adjunct instructor at the Columbia Institute. Previously, he had a real estate brokerage specializing in high-end condominiums. He earned a master's degree in real estate appraisal from The University of St. Thomas in Minneapolis.

JoAnn Apostol, MNAA
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JoAnn Apostol is an AQB Certified USPAP Instructor and has been licensed as a Certified Residential Appraiser since 2002. She has taught licensing, USPAP, and continuing education courses since 2005 and has authored many appraisal-specific CE courses. Her clients include attorneys, estates, portfolio lenders and appraisal management companies. As an expert witness, she has testified on many occasions in court on appraisals and appraisal reviews she has conducted. She also works as a USPAP consultant for investigations, disciplinary matters, and licensing matters. She specializes in unique, complex and mountain properties in the areas surrounding Denver, Colorado.

Malinda Griffin, MNAA
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Malinda is the owner/operator of Malinda Griffin & Co. She has been a Certified Residential Appraiser in the Upstate of South Carolina since 1992 and offering title abstracting services since 1990. Her clients include lending institutions, appraisal management companies, attorneys and accountants. In 2018, Griffin expanded her scope to offer South Carolina Appraiser and Realtor continuing education. She served as President of SCPAC in 2020 and continues to serve as the SCPAC Education Committee Chair and Coalition Manager. Griffin currently serves on the following NAA Committees: Appraiser Trainee, Board of Governors, Communications, Education, Conference Program, Governmental Affairs, Industry Partner Alliance, and Co-Chairs the Membership and Appraiser Relief Fund Auction Committees.

Martin Wagar, MNAA
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Martin Wagar, MNAA, holds State Certified appraisal licenses in Michigan and Florida and began his career appraising full-time in the mid-1970s. His professional designations include IFA-S, ASA, RAA & Realtor Emeritus, and he holds committee positions in both the National Association of Appraisers and the National Association of Realtors. His experience includes Chief Appraiser for Amerifirst Financial, member of Michigan State Appraisal Board 2017/2019 and founder of Midwest Appraisal Management Group. Wagar is an active instructor providing appraiser continuing education in Michigan, Indiana and Wisconsin with experience in all fields related to the appraiser profession. Currently working in private practice with Wagar & Assoc., he remains committed to see the appraisal profession endure the challenges of both the economy and changing political climates.

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DID YOU KNOW

60 to 70 percent of appraisers are not affiliated with any professional association?

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Timothy C. Andersen, MNAA
Real Estate Appraiser and Consultant



"Appraisers must start to ignore the influence of non-realty items."

Is the USPAP'S Cost Approach Useless?

A look at this analytical tool and its use in the formation of a credible value conclusion



ARE THE ANALYTICS OF THE COST APPROACH an invaluable tool for the formation of a credible value conclusion and a non-misleading report, or is it just a useless appendage of the appraisal process?

In this article, I aim to show the connection between SR1-3 (especially the Comment to SR1-3(b)), highest and best use, the Cost Approach, and market value. Such a connection does indeed exist.

Nevertheless, appraising a parcel of real estate, and then reporting it, is a complex proposition. As a result, appraisers tend to worry about the processes of the Cost Approach, rather than the logic, reasoning, and market-support behind those processes. Understanding this relationship can also aid the appraiser in avoiding bias. In

writing this article, I hope to help appraisers confront this confusion and put an end to it.

SR1-3 is USPAP's market analysis and highest and best use Standard Rule. It makes clear that when credible assignment results are necessary to develop a market value opinion, the appraiser must engage in five separate analyses, although they are, to great extent, interrelated. These five are here by reference. Once USPAP has finished delineating these five, it then makes an important comment about the need for the appraiser to engage in these five separate analyses, stating that an appraiser "must avoid making an unsupported assumption or premise about market area trends, effective age, and remaining life" to comply with SR1-3(a).

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"To engage in the analytics inherent in the cost approach (or any approach, for that matter) is an integral part of an appraiser's scope of work. This is because the approach shows the appraiser the subject site's value as if it were vacant and available to be put to its highest invest use, an estimate of accrued depreciation, one indication of the GLA adjustment, and the subject's effective age."

After performing the five separate analyses (while avoiding unsupported assumptions), the appraiser must develop an opinion of highest and best use. This order of logic is instructive: It means that the five analyses and the avoidance of unsupported assumptions flow directly into the opinion of highest and best use — and then into the value opinion.

CONSIDER THE COMMENT TO SR1-3(B): *"An appraiser must analyze the relevant legal, physical, and economic factors to the extent necessary to support the appraiser's highest and best use conclusion(s)."*

Notice the order of this comment. It comes from SR1-3(b), therefore it follows SR1-3(a). That sequence is there for a purpose. The purpose is to show that a discussion of a property's relevant legal, physical, and economic factors is not something to pull out of the air. Rather, these characteristics are what SR1-3(a) requires the appraiser to

analyze before making a highest and best use conclusion.

Therefore, it should be but a simple step to analyze the relevant legal, physical, and economic factors for both the subject and the comparables. It should be simple because this is what the appraiser did in complying with SR1-3(a).

Consider that "existing land use regulations" and "reasonably probable modifications to such land use regulations" are legal factors. "[R]easonably probable modifications of such land use regulations" is also a physical factor, as is "the physical adaptability of the real estate." Finally, the economic factors are "economic supply and demand" and "market area trends." Please understand that all these components are equally important.

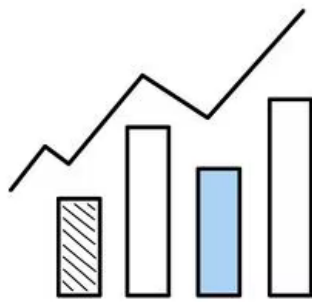
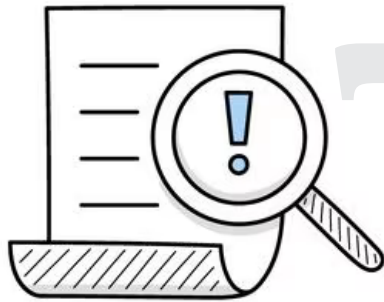
In other words, if there is no demand for a specific land use, why supply that land use to a market that does not want or need it? Thus, a legal use and a physically possible use are both irrelevant if it is not financially feasible to use the land in that manner. And if the use of a property is not financially feasible, it has no value under that use.

From this, it is clear the five components of SR1-3(a) indeed are those relevant legal, physical, and economic factors the appraiser must analyze to the extent necessary to support the appraiser's opinion of highest and best use. This means the appraiser no longer needs to wonder what USPAP refers to when it talks about the relevant legal, physical, and economic factors. These factors specifically refer to the five components of market analysis and highest and best use in SR1-3(a).

To understand these components, as well as how to analyze them, we must consider the basic components of competency in a real estate appraisal. Indeed, the Competency Rule makes it clear the appraiser must be competent to accept the assignment before agreeing to take it. Part of this pre-agreement requirement is that the appraiser already understands the five components of highest and best use as USPAP holds them. Understanding these requirements at the proper level is part of competency. Executing the analytical requirements of these components is part of scope of work.

USPAP's "scope of work" definition is "the type and extent of research and analysis in an appraisal...assignment". This research, these analyses, are what the appraiser must summarize in the scope of work statement in the appraisal report. The inclusion of mere boilerplate that the appraiser turned on the faucet in the kitchen, flushed the toilets to conclude they worked, and turned on and off some lights, is not, by definition, a summary of the "type and extent of research and analyses in an appraisal...assignment." These are merely a part of the inspection (which, under USPAP, is a requirement of neither the appraisal nor the appraisal report).

To engage in the analytics inherent in the Cost Approach (or any approach, for that matter) is an integral part of an



cost approach

appraiser's scope of work. This is because the approach shows the appraiser the subject site's value as if it were vacant and available to be put to its highest invest use, an estimate of accrued depreciation, one indication of the GLA adjustment, and the subject's effective age.

Further, it serves as a check on the reasonableness of the Sales Comparison Approach. **How so?**

Both the Cost Approach and the Sales Comparison Approach analyze the same two components of value:

- (1) the value of the underlying site as if it were vacant and available to be put to its highest and best use
- (2) the contributory value of the horizontal and vertical improvements to the site.

Therefore, the value opinions from these two approaches should be remarkably close to each other. If there is a gap between these two indications of value of more than approximately two percent, that gap merits analysis and explanation within the appraisal report since it likely indicates an error or an undiscovered depreciation factor.

In addition, the analytics of the cost approach can show the appraiser quite clearly the highest and best use of the property as improved. This process is straightforward. Simply subtract from the value conclusion via the Sales Comparison Approach the value of the site as if it were vacant and available to be put to its highest and best use. If the result is a positive number, then the improvements add value to the site, thus the improvements are the highest best use of the site as improved. If the result is a negative number, then the improvements do not add value to the site, thus the appraiser has another decision to make. In other words, is it time to raze the improvements, renovate the improvements, repair the improvements, etc? In the typical day-to-day appraisal assignment however, this number will be positive.

In summary, the Cost Approach is not merely a useless appendage to real estate appraisal's body of knowledge. This is true because the analytics of the Cost Approach apply to any appraisal of any single-family residence. Because the cost approach deconstructs the value conclusion via the Sales Comparison Approach, it is not only an essential analytical tool, but also a market-based check on the value conclusion from that approach. Its analytics aid the appraiser in concluding highest and best use, thus aid the appraiser in concluding a credible market value opinion. A market value opinion that is credible, accurate, reliable, and reproducible is a market value opinion that will go a long way toward sheltering an appraiser from charges of bias in the formation of that conclusion. For these reasons alone the Cost Approach is an indispensable analytical tool to be used in the formation of a credible value conclusion communicated in a non-misleading report. ■

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NAA's Mission UNITE: Bring appraisers together to advocate for positive change.

Malinda Griffin, MNAA
Certified Residential Appraiser



"Since the inception of the ARF, \$81,708 funds have been raised through private donations and the auctions at the ACTS conference and the Appraisal Summit. Through those funds, 18 people have been assisted in the amount of \$47,500."

The NAA Appraiser Relief Fund

"Giving is not hard, you just have to do it!"



THE APPRAISER RELIEF FUND (ARF) was founded early in 2021 and established as a 501(c)(3) nonprofit in June of 2021 after an appraiser experiencing a difficult time reached out to NAA President Bryan Reynolds.

Bryan, realizing there was nothing in place in our organization to lend a helping hand in times of need (fires, hurricanes, earthquakes, flooding, medical, unexpected events), quickly put together an ad-hoc committee to form the ARF.

Since its inception, the ARF has raised \$81,708 through private donations and auctions at the ACTS and Appraisal Summit conferences, and we've been able to help 18 appraisers in need.

As we continue to have natural disasters, health issues, etc., we strive to pledge support to our peers in their times of need. Giving to the ARF is not hard, you just have to do it! Whether it is through a cash donation, a donation to the auctions, or a purchase at an auction – every bit helps.

Many independent, boots-on-the-ground appraisers struggle when there is an unexpected event or a natural disaster. The ARF is intended to help appraisers throughout the country with their educa-

tion, licensing fees and other items to keep their business running during the unexpected events of life.

You can apply for ARF assistance online at naappraisers.org/arf. The application is simple and is reviewed quickly by a devoted committee of fellow NAA members.

Want to contribute? You can give a tax-deductible gift directly by logging onto naappraisers.org/arf or you can contribute an item to the semi-annual auction. No item is too large or too small! Previous items donated include bourbon baskets, Disto laser devices, tablets, education packages, software packages, wine, art, jewelry, trips/Airbnb rentals and gift cards.

The upcoming ACTS23 conference in Sacramento, California, will again feature a silent and live auction for the ARF, and we have already begun putting items together for a great event. How can you help? You can donate an item or service. Contact Blair Dingeman or me to learn more. You can bid on items donated by registering at appraiserrelieffund.betterworld.org.

Help us help others by giving to the Appraiser Relief Fund. ■



Want to contribute?

You can give a tax-deductible gift directly by logging onto naappraisers.org/arf or you can contribute an item to the semi-annual auction.

No item is too large or too small!

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Timothy C. Andersen, MNAA
Real Estate Appraiser and Consultant



"While the mechanics of calculating a GRM are straightforward, choosing one is more of a challenge."

The Benefits of the Income Approach

Here's why this analytical tool is important, even when a property does not produce an income



ONE QUESTION REAL ESTATE APPRAISERS COMMONLY ASK has to do with the income approach. Specifically, the relevance of this approach to value, especially when the property does not currently produce an income.

This is a complex question. But it comes down to this: By definition, a property's highest and best use is the one that brings the highest value as of the appraisal's effective date. If, as part of the appraisal, there is no analysis of the subject's net income, how can the appraiser credibly

conclude that property's highest and best use? And if the highest and best use conclusion is not credible, how credible will the value conclusion be? So, this is a valid question to ask, thus an important one to answer.

That a property does not produce an income does not mean it cannot produce an income. Any real property can produce income – just stick a “for rent” or “for lease” sign in the front yard. According to USPAP, the appraiser must assess “when an Income Approach is necessary for cred-

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ible assignment results.”

Really, the only way to figure out if the income approach is necessary, is first to engage in the protocols of SR1-4(c)(i-iv). This is true even if the property is not producing an income as of the appraisal’s effective date. How do we know this? Because SR1-4(c)(i-iii) admonishes the appraiser “to analyze such comparable...data as are available,” not the rental data the property currently has. So, even though a property may not produce an income as of the appraisal’s effective date, that does not mean it will not. Thus, the analytics of the income approach apply to the formation of a credible value conclusion.

Typically, the appraiser uses a gross rent multiplier (GRM) to value a single-family residential property. This is simply a way of converting an income stream (a series of individual cash flows) into a single value indication. While the mechanics of calculating a GRM are straightforward, choosing one is more of a challenge. This is because the GRM the appraiser chooses must come from properties that are comparable to and competitive with the subject. How so?

It is true that if two houses rented for \$1,500 per month at the times of their sales are \$150,000, the GRM for both is 100 ($\$150,000 \div \$1,500 = 100$). However, suppose house-A had this rental from a steady tenant for the last 36 months. But house-B has this rental from a more questionable tenant for the last two months. Yes, they both sold at a GRM of 100. But if house-B had been vacant for 34 of the past 36 months, it does not have a stable income and expense history, while house-A does. Since the protocols of the income approach assume the stabilization of income and expenses, then the GRM from house-A, assuming it is comparable to and competitive with the subject, is the

more credible, the more reliable valuation tool. Because of this latter qualification, the appraisal report would make clear why house-A is the better comparable, not merely that it is a comparable.

So, how does this play into the income approach as part of the highest and best use analysis? So far, this article has set the stage on this situation, now let us open the curtain to see and understand what is going on.

Again, the use of a property that brings the highest value is, by defi-

“From the standpoint of highest and best use, the income approach is extremely helpful in that it can show what the subject’s highest and best use is not, therefore support the appraiser’s conclusion of what the highest and best use is.

And, by giving a clear indication of what the highest and best use is, the appraiser can better choose the proper comparable sales. After all, the definition of a comparable sale is one that has the same highest and best use as the subject.”

inition, the highest and best use of that property at any given time. In line with this logic, assume the Sales Comparison Approach shows the value of the subject property is \$450,000, but the comparable rentals and GRMs indicate the property has a value of \$415,000. Since the higher value results from the sale of the property from a retail seller to a retail buyer, then by definition and elimination, the highest and best use of the property and its market value is \$450,000. But how does this tie into the property’s value?

These two analytical protocols, the Sales Comparison Approach and the income approach clearly





showed the property’s highest and best use, thus its market value. What it also showed was that the property’s value was not \$415,000 since its use as a rental would result in a lower market value. Therefore, these analyses supported the subject’s value at \$450,000 and rejected the subject’s value at \$415,000. Both analytical protocols have their proper place and function in the appraisal of a single-family residence.

When it comes to highest and best use, consider the language of USPAP’s SR1-3(b) and then SR2-2(a)(xii). From the former standards rule it is clear the appraiser is to “develop an opinion of the highest and best use of the real estate.” Via the above comparative protocols, that is exactly what the appraiser did. Then, via the latter standards rule, it is also clear the appraiser must “at a minimum...summarize the support and rationale for that [highest and best use] opinion.” What are the support and rationale this standards rule requires of the appraisal (and, by extension, the appraiser)?

By analyzing the two approaches, the appraiser supported the highest and best use conclusion. But the rationale behind that support requires the appraiser to describe those analytics, then to describe how and why those analytics led the appraiser to the highest and best use conclusion. Therefore, it is reasonable to conclude the analytics form the support for the highest and best use conclusion, while the description of the how and the why form the rationale.

From this it is easy to conclude the boilerplate description of highest and best use pre-printed in the appraisal reporting software is simply too inefficient to complete this task in a non-misleading manner. Canned and meaningless statements such as, “the subject’s highest and best use is its present use” or “since the subject’s zoning is residential, its highest and best use is as a single-family residence” are misleading since they do not lead the client anywhere.

In addition, they fail miserably at summarizing “the support and rationale for [the highest and best use] opinion.” They neither support that conclusion nor supply the rationale behind it. From the language of SR1-1(b), these could be called “substantial error[s] of omission... that significantly affect an appraisal.

So, yes, the income approach is relevant to both highest and best use and market value, even if the subject property is not currently rented. Unless the above is total barnyard ground cover, there is a relationship between the income approach, highest and best use, and market value. From the standpoint of highest and best use, the income approach is extremely helpful in that it can show what the subject’s highest and best use is not, therefore support the appraiser’s conclusion of what the highest and best use is. And, by giving a clear indication of what the highest and best use is, the appraiser can better choose the proper comparable sales. After all, the definition of a comparable sale is one that has the same highest and best use as the subject.

It is safe to conclude, therefore, that the income approach is not irrelevant. Indeed, it is, or should be, part of the analytics of every single-family residential real estate appraisal. That it might not be part of the report is fine. But it should be part of the analytics behind every appraisal. And the appraiser should maintain these analytics, in detail, in the work file. ■



Appraising in the Past: A Look at Retrospective Appraisal Assignments

By JoAnn Apostol, MNAA

How to navigate these often tricky appraisal assignments and why you need to know



Many appraisal assignments are current assignments for loans in play, so when an assignment comes in that is a retrospective assignment, we scratch our heads and try to remember how to do these.

I recently had two assignments on two properties for a divorce where the client needed current values, but also needed values from 2004. Living in the past as an appraiser is a difficult thing to do. We must forget what the market has done in the last few years and get our mind around what was it like then. Remembering what sources were available 18 years ago is tough, and we don't know how lucky we are with the current technology.

Fortunately, this is not my first go around with a retrospective appraisal assignment from 2004 in the mountain areas west of Denver. The challenge of the assignment is in getting the data. The local MLS had a practice of deleting data from their database when it was two years old since they didn't have the electronic storage capacity to retain it. If your MLS does retain the data, consider yourself lucky as I was forced to visit the local MLS office to dig through archives of sold books for a day.

Even then, not all the sales made the sold book if they sold in the same month they were listed in or if the agent failed to make the effort to report them as sold. There was one book missing from the archives, June 2004, and my effective date was July 30, 2004. All the sales weren't listed in the Denver MLS before mid-2004, so I drove two hours to visit a retired appraiser so I could get a plastic storage box full of the mountain MLS books between 1987 and 2003.

Unfortunately, the data isn't as complete as what we get today, so there is less reliability. The good news is that most of the counties I needed data from will allow me to export sales from their database, so I had the beginnings of an electronic database that was usable to meet today's standards of appraising. Why do I want this database, you ask? Because the profession has higher expectations from appraisers than they did in 2004. And my normal scope of work is more extensive than it was back then.

Dodd-Frank Act, the mortgage crisis, and risk analysis by lenders has increased the scope of work expected in an assignment and content of a report. We used to joke, when I started 22 years ago, that the only reason we printed hard copies of reports was for the lenders to look at the color pictures. Back then, if the final value worked for the assignment, we didn't really hear much from the clients. Moreover, USPAP today is far different from USPAP in 2004, and the report date dictates your compliance with USPAP. That means, the development and reporting stages must meet current USPAP compliance and what today's peers, and regular intended users expect.

With the slowing of orders since the middle of 2021 from lenders, many residential appraisers are trying to expand their client bases into private clients. Es-



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tates, divorces, and some tax assignments often have retrospective effective dates. If a downturn comes in the housing market, I expect to see retrospective reviews and appraisals return to the residential side of the industry as well.

After the mortgage crisis, there were many retrospective assignments, including the special ones they called enhanced review assignments. The client asked for a review of a retrospective appraisal that required two to three additional comparable sales. The most interesting part of this was they also asked the appraiser to try to get access to the property. It was an interesting conversation with agents asking to access a property that was currently listed for an appraisal that wasn't for the purchase of the home. As loans go into default and the GSEs begin asking lenders to buy back loans, these types of assignments will return to the appraisal industry.

THE EFFECTIVE DATE IS EVERYTHING

The key to retrospective appraisals is the effective date. That date sets the date of value and the time frame for gathering data. Using closed sales after that date that weren't exposed to the market at that time is like looking into a crystal ball as of the effective date. I usually gather sales after the effective date to establish the supply, but I eliminate sales that weren't active or under contract before the effective date of the assignment.

Advisory Opinion 34, in USPAP, addresses retrospective and prospective value opinions and should be read when you consider or first begin doing these assignment types. It recommends clear and concise language to eliminate misleading reports. It also suggests using past tense in the report as it increases clarity. It is up to the appraiser to set a logical cutoff date for the data used in the analysis because at some point, the data after that doesn't represent the market conditions as of the effective date.

I did a review of another appraiser's report for a court case where the effective date was April 2019, and the appraiser used a sale that closed in July of 2019. The issue was that the July sale incurred several price changes after the effective date that weren't analyzed in the original report. While this listing was entered prior to the effective date, the price changes and closed price didn't occur until after the

effective date. The price reported in the original report was the closed price, not the list price as of the effective date, and none of the listing history after the effective date was discussed or analyzed. This is misleading under USPAP because the sale wasn't closed and the price reported wasn't the price as of the effective date. It is acceptable to use sales that closed after the effective date, but they must be reported accurately. There was no way the appraiser would have known this sale would close if the data had been gathered on the effective date for a current assignment. I always consider what would the market have known if it was a current assignment on that date. This avoids the temptation to use data after the effective date.

RESEARCHING PROPERTY CONDITION

The condition of the subject property can also cause issues in a retrospective assignment. Looking at a home one to two months after doesn't raise as many concerns as looking at a home 18 years after the effective date. Look for expired, withdrawn, and closed sales before and after the effective date if good information isn't available from the client about the condition of the subject property.

The comparable sales may also lack good information about the condition of the sales since some MLS systems remove the secondary pictures from the listing at some point. The old MLS books are fun to look at since there is one, really bad picture of the sale. The description abbreviations and comments are often truncated from the listing as well. Verification with the agents is also very difficult since they may be retired, out of the industry or just can't remember that far back. If the assignment is for a lender, it is likely they have an appraisal from when the loan was made, so ask if this is available. Many internet sites, like Google Earth or a county mapping site, might have historical aerial views that will help with understanding the property as of the effective date.

The key is to state what you can verify and use available sources to get as reliable information as possible. For my 2004 assignment, we gathered sales after 2004 from the MLS to help understand floor plans, room counts and possible condition changes. The data up to 2008 isn't available electronically on our system, but sometimes the condition hasn't changed



Look for expired, withdrawn, and closed sales before and after the effective date if good information isn't available from the client about the condition of the subject property. "

much between the sale dates. Standard Rule 1-2 says the appraiser identifies characteristics from sources they believe are reliable about the subject property. You must have a reasonable basis to believe the information you have is as reliable as possible.

MAKING EXTRAORDINARY ASSUMPTIONS

Extraordinary assumptions are also typically needed in a retrospective assignment. These are used when an appraiser relies on uncertain information about physical, legal, or economic characteristics in an assignment. There's no specific section where an extraordinary assumption has to be located, but it must be clearly and conspicuously stated in the report.

It's funny that USPAP doesn't require the exact words "extraordinary assumption" to be used either. It's recommended that the appraiser uses these words because they have a specific meaning to appraisers and in USPAP. Remember that disclosing their use might affect assignment results in your report. This may be confusing, so you might want to state if the condition is substantially different than described, the value conclusion may be significantly different.

I often say common sense is the best way to describe many USPAP requirements, and this is very true when using extraordinary assumptions and hypothetical conditions. You must have a reasonable basis to support the use of an extraordinary assumption, or for purposes of reasonable analysis when a hypothetical condition is used.

After 2008, some lender/clients and AMCs were asking for my license as of the effective date of a retrospective appraisal assignment. This is a client requirement, not a USPAP requirement. Appraisers are often pack-rats when it comes to retaining documentation, but keeping those paper licenses was a bonus at that time. If you are reviewing a report that was dated before the current version of USPAP, you should have access to the USPAP that was effective as of the report date. Since USPAP changes, it is good to get that version out to check if there were any changes related to the report you are reviewing.

FINDING THE FORM

Lastly, residential appraisers tend to be tied to using a form for reporting results of the appraisal. I cringe when I know the assignment just isn't going to work well on a form because it's what I am most comfortable with. Don't let this stop you from accepting an assignment. If you know it will be difficult to do what you need on a form, find a colleague that does narrative assignments to assist, provide a template or just review the report for you.

If the assignment isn't for lending purposes, you should avoid using forms with a pre-printed intended use and user statement in them. Most software providers have a general-purpose form that you can use. The greatest thing is the form can be used for current, retrospective, or prospective assignments, usually. There are many available forms that are non-lender forms in my software, so research those available and choose one that works for you. Remember to add the certification page for this form to the report contents since the form doesn't always have this section. Double-check all forms to make sure you can report the assignment in compliance with USPAP. Remember, forms don't comply with USPAP. Appraisers are required to comply with the standards. ■

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"Professionals are relied upon to make these judgements based on their training. If not exercised, the public is harmed."

The Intersection of AI and Human Discretion

The advent of new technology calls for a compromise between old methods and new



WE ARE HEARING A LOT LATELY THAT IN THE WORLD OF BIG DATA, the appraiser and the appraisal process should not involve exercising human thought processes such as discretion, analysis, judgments, etc. The focus, some say, should lie solely on the data.

If this were true – and a workable solution – there would be kiosks for buyers and sellers to tell them what they should and shouldn't like and, to the penny, what they should pay for the homes they are buying (and mortgaging).

Those who work in the real estate profession know that's not how it works. Buyers and sellers are driven by emotions tempered by reality. Thoughts involving discretion always enter the buying and selling process. As with any other profession – airline pilots, plumbers, profes-

sors, electricians, judges – discretion and subjective analysis are a necessary part of the job. They are judgments made based on facts and rooted in reality. Professionals are relied upon to make these judgments based on their training. If not exercised, the public is harmed.

Therefore, I believe it is a necessary part of the appraiser's job to employ such processes of thought, using their discretion and considering the facts and the research. This helps create an informed, professional, judgments, which is needed for the completion of a credible appraisal report.

At the end of the day, the appraiser's primary task is to "parrot" the market. That cannot be done without exercising these human factors. The Artificial Intelligence tools that exist are extremely useful to the appraiser, but they are only tools – not answers.

It appears we have the appraisal profession's largest client suggesting another way to do our job and – like in any business – appraisers should listen and adapt while remaining compliant with USPAP. Appraisers should continue to utilize the human factors necessary to do the job of estimating market value, while making use of all the AI tools at our disposal.

As an appraiser, I remain hopeful that the future holds a thoughtful compromise. ■

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