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Appraisal Review: What It Is, What It's Not—And Why It Matters

Jack Young, ASA, CPA

The purpose of this article is to clarify what appraisal review is and is not, according to USPAP Standards 3 and 4, and the ways in which appraisal review education can be of benefit to appraisers and ultimately benefit the users of the appraisals. Further discussion includes the qualities that determine credibility of an appraisal, the importance of focusing on the review and critique of a specific appraisal report rather than the appraiser, and the importance of appraisal review education for appraisers who perform review. The ASA offers an accreditation in appraisal review that is of benefit to both the appraisal profession and the public at large.

Introduction

The most important part of appraisal aeview is its contribution to determining the credibility of appraisals, which underlies its other contributions to the appraisal profession: Appraisal review supports the appraisal profession by increasing public trust in the profession and also encourages more professionally researched and communicated appraisal reports. This article explains what appraisal review is, what it is not, and what makes it important for appraisers and the appraisal profession.

First, USPAP defines appraisal review simply as

> the act or process of developing an opinion about the quality of another appraiser's work that was performed as part of an appraisal or appraisal review assignment; (adjective) of or pertaining to an opinion about the quality of another appraiser's work that was performed as part of an appraisal or appraisal review assignment.[1]

In Standard 3, USPAP provides guidance toward developing that opinion through assessing the qualities of completeness, accuracy, adequacy, relevance, and reasonableness. Standard 4 addresses required content for the reporting of that opinion.

Second, the term appraisal review is used to indicate the work that reviewers perform: the hands-on process and methodology from accepting a review assignment to submitting a final review report.

The area of appraisal review education is third. Foremost in the field, and limited to real property appraisals, the Appraisal Institute has done much to regulate appraisal review, offering excellent books and courses.

The ASA continues to lead the area of appraisal review development and education for all appraisal disciplines. A fairly recent innovation is offering ARM 201 and ARM 204 to current ASA appraisers who are interested in reviewing appraisals in their own disciplines. Eliminating the need for ARM 202 and ARM 203, which were required for the original ARM designation, streamlines the process of accreditation for experienced appraisers and provides appraisal users with accredited appraisal review experts in specific appraisal disciplines.

In the field of business and intangible asset valuations, the Certified in Entity and Intangible Valuations (CEIV)[2] designation, first awarded in 2017, shortly after CEIV education and tests became available earlier that year,

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[1]USPAP 2018–2019, p. 3, Appraisal Review.
[2]CEIV Credential, accessed at https://ceiv-credential.org/, May 8, 2018.

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depends heavily upon the Mandatory Performance Framework (MPF) and Application MPF, documents intended as a resource for the valuation review process. The CEIV designation includes a periodic practice review component to retain the designation.

The Importance of Appraisal Review

Appraisal review is, first and foremost, a standardized process that provides guidelines for adjudging the overall quality of an appraisal relative to applicable standards while concurrently addressing the degree to which that appraisal is credible, logical, and persuasive. It is a critical component of USPAP's pervasive principle: to support public trust in the appraisal profession. Much like the accounting profession, the appraisal profession is largely self-regulating, with real estate being the exception. Appraisal review is one of the important quasipolicing methods by which the appraisal profession conscientiously guides and regulates its members.

Report writing classes are certainly available; however, these classes are not required for accreditation. Appraisal education generally focuses on the appraisal process itself, with little or no guidance in communicating that process to the intended users. Unfortunately, this too often results in intended users being unable to thoroughly understand the appraisal report they have received. They may not be able to follow the analytical methodology, the basis for key assumptions, the value reconciliation process, or the logical flow supporting the conclusion of value. Appraisal review addresses that problem directly, providing a standardized methodology that can be used to address flaws or errors in the appraisal process and in appraisal reports. Like the CEIV and the MPF, ASA's ARM 201 and 204 are intended to improve valuation quality.

At least two factors contribute to that improvement. The first is immediate: By understanding and practicing proper appraisal review methodology, appraisers become more skilled in both appraisal processes and in appraisal report writing. Appraisers who have taken ARM education courses understand and apply the necessary qualities and factors of effective report writing. Analyzing reports of other appraisers illustrates what to include and excludes in reports and increases appraisal competency. A more long-term benefit to be gained from an appraisal review practice is increased and regular exposure to a variety of appraisal report formats—many of which may inspire fresh and perhaps unexpected ways of understanding the appraisal process. And, of course, accredited reviewers are in a position to help other appraisers develop increased skill as well, should that in fact be appropriate.

Standardized appraisal review methodology strongly supports USPAP's goal of developing increased public trust by providing increased confidence for appraisal users overall.

Performing and Presenting an Appraisal Review

One confusing comment heard from appraisers is that they do not need to follow appraisal review methodology because reviewing only a portion of an appraisal or just one important calculation isn't a "real" Standard 3 review. It is true that the subject of an appraisal review can be very specific or quite broad. Appraisal review can be as specific as checking a discount rate, verifying the analytical methods used to value one item, verifying market rents, confirming proper choice of index used, or checking adjustments made to one comp or as broad as the entire report, the entire workfile, an inspection of the subject(s) of the work under review, or providing an opinion of value.

USPAP, however, defines appraisal review quite broadly:

> the act or process of developing an opinion about the quality of another appraiser's work that was performed as part of an appraisal or appraisal review assignment; (adjective) of or pertaining to an opinion about the quality of another appraiser's work that was performed as part of an appraisal or appraisal review assignment.[3]

USPAP further states that the subject of an appraisal review assignment may be "all or part of a report, workfile, or a combination of these"[4] and adds that

> Reviewers have broad flexibility and significant responsibility in determining the appropriate scope of work in an appraisal review assignment.[5]

Given the range of what USPAP declares asppraisal review includes, it is difficult to rationalize that there may be any kind of appraisal review for a client or intended user—no matter how narrow or limited—that is not subject to standardized appraisal review methodology. Standardized methodology would not, of course, be required for reviews not performed for clients or intended users, such as internal reviews done by an internal valuation professional for audit review of a purchase price allocation or the collegial reviews that appraisers often perform for each other as a professional courtesy.

Because ASA members must always comply with USPAP, any appraisal review service that involves an opinion of another appraiser's work must conform to Standards 3 and 4. This would even apply to an ASA

[3]USPAP 2018–2019, p. 3.
[4]Ibid.
[5]Ibid.

member reviewing a report prepared under different appraisal standards such as IVS, SSVS, or other appraisal standards. The only situation in which the appraisal review standards might not apply would be an assignment in which a reviewer is hired only to verify factual data within another report and to offer no opinion on anything.

Standards 3 and 4 provide reviewers a great deal of flexibility and structure in meeting the needs of the appraisal review's intended user when developing an opinion about the quality of another appraiser's work. While this language may appear to encourage reviewers to focus on the appraiser, appraisal review is intended to focus solely on the appraisal under review. USPAP provides the structure for both phases of an appraisal review: Developing an Opinion of Credibility and Developing a Review Report.

Developing an opinion of credibility: Standard 3

Standard 3 presents the core concept of appraisal review:

> Consistent with the reviewer's scope of work, the reviewer is required to develop an opinion as to the completeness, accuracy, adequacy, relevance, and reasonableness of the report, given law, regulations, or intended user requirements applicable to that work.

These qualities of completeness, accuracy, adequacy, relevance, and reasonableness provide the reviewer with a robust and standardized way of reviewing appraisals. An assessment of whether or not these qualities are present in the work under review illuminates the credibility of the appraisal work and, subsequently, the appraisal report being reviewed.

A recent article in the Business Valuation Review[6] states that valuation quality can be affected by factors including

- Advocacy—lack of independence
- Insufficient technical competence (e.g., inadequate knowledge of guidance affecting valuation or insufficient technical skills)
- Negligence (e.g., inadequate valuation procedures or inadequate quality control).

Each of these factors can be addressed within the context of USPAP's Standard 3. ARM classes involve vigorous and lengthy discussions about these qualities. While the list is collectively exhaustive, the individual elements themselves are not mutually exclusive—in fact, they overlap to provide an effective and comprehensive basis for appraisal review. For example: Boilerplate may create problems with relevance and adequacy; improper use of analytical procedures may create problems related to accuracy and reasonableness; and inadequate asset descriptions may demonstrate a lack of knowledge regarding the subject assets and can indicate significant problems with the valuation analysis.

Applying the filter of these qualities to the appraisal allows the reviewer to make objective and comprehensive determinations regarding its credibility. Of course, because Standard 3 stipulates that the credibility of assignment results is always measured in the context of the intended use and that the (appraisal) report must contain sufficient information to allow intended users to understand the scope of work performed, a critical part of the reviewer's job is essentially to step into the shoes of the intended users of that appraisal and to determine—in light of the intended use—whether or not the report meets the requirements of those intended users.

Work under review: Scope of work

Analyzing the original appraisal's scope of work is an important step in understanding the context of intended use. Scope of work problems often foreshadow a problematic appraisal. These early warnings often appear as a vaguely defined appraisal problem. This is a critical point because, as we often say in the appraisal discipline, "A problem well put is half-solved."[7] If the scope of work appears inadequate for an assignment, that inadequacy might well indicate a problem with report credibility.

Scope of work of the original report should include the seven key elements of the appraisal problem: Client, Intended User, Intended Use, Definition of Value, Relevant Characteristics, Effective Date of Value, and Assignment Conditions, including assumptions and hypothetical conditions. Depending on the Intended Users requirements, these two items can have great bearing on the report's credibility. For example, in appraising damaged or destroyed assets for insurance loss claims, all assumptions made regarding descriptions and conditions must be listed, documented, and explained.

With the scope of work in place, the appraiser develops the four points of investigation necessary to solve the problem: identification of subject property, inspection, data research, and appropriate analysis. The reviewer should analyze each of the seven elements and each of the four points of investigation for the qualities of completeness, accuracy, adequacy, relevance, and reasonableness.

[6]"CEIV: Advancing the Quality of Valuations," *Business Valuation Review*, 36 (2017).

[7]John Dewey (1859–1952). American philosopher, psychologist, and educational reformer.

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Developing a review report: Standard 4

An important part of developing a review report is focusing the reader's attention on the most significant issues—in light of the intended users' requirements—rather than making a list of minor errors or other areas of concern. Of course, distinguishing between significant issues and minor errors is an important aspect of the reviewer's responsibility. A preponderance of minor errors is often a cause for alarm and any calculation errors rightly disconcert experienced appraisers. Focusing on misspellings, however, when a report under review contains inadequate asset description that influences market research errors, benefits neither the reviewer nor the intended user. The review report must contain reasons for disagreement, with issues identified. These reasons need to be fully supported by a logical flow of facts, analysis, and conclusions using an objective tone. In the ARM classes, we teach logical report writing based on deductive reasoning, as traditionally taught to first-year law school students. Although not required by USPAP, this type of logical argument is an effective tool for writing both appraisal reports and review reports.

In the end, reviewers point out only issues uncovered in the areas of completeness, accuracy, adequacy, relevance, and reasonableness, and/or noncompliance with USPAP standards. Decisions as to whether any of the issues at hand constitute a violation of USPAP is not the responsibility of the reviewer; such determinations are the responsibility of a trier of fact, regulatory body, or some other entity with the authority to do so.

The Dark Side: What Appraisal Review is *Not*

While developing an opinion about the quality of another appraiser's work seems pretty straight forward, a couple of necessary points must be made: Appraisal review is not a review of the appraiser or a determination of whether or not an appraiser is competent. An asppraisal review focuses directly on the appraisal itself, leaving any conclusions about an appraiser's competency pertaining to the specific assignment or in general to the user of the appraisal review.

Don't review the appraiser

Appraisal review is not an opinion of the appraiser who performed the work; it is an opinion about the work performed by the appraiser, that is, the work under review. While this seems obvious, it's often not: Review reports that cross the line and focus on the author of the report rather than the report itself are all too common.

In focusing on the appraiser, the reviewer can easily venture onto the thin ice of defamation and inadvertently make ad hominem attacks. A skilled litigator can all too easily transform a reviewer's direct attacks on another appraiser's competency as defamation and press charges against the reviewer. Such litigation could be quite unpleasant and time consuming, regardless of the final decision. As a Southern attorney thoughtfully drawled at a litigation conference, "Anytime your name appears before or after the letter 'v' ... you lose."

Best practice is to completely avoid referencing the appraiser. While this may seem difficult—especially when the work under review has glaring problems that call into question the competency of the report's author—it's important to keep the focus of the review on the report rather than the appraiser. Standards Rule 3-2 (d) (iii) requires the reviewer to identify "the appraiser(s) who completed the work under review, unless the identity is withheld by the client." This information is located in the scope of work and should very well be the only place the appraiser(s)' name(s) is listed in the entire report. Even if the reviewer has past history or experience with the appraiser, the reviewer must focus steadfastly on the work under review and not the appraiser. This is an essential aspect of impartiality and independence. Reframe any personal observations to focus on the report rather than the report's author, and trust that the user of the appraisal review will be able to draw the obvious conclusion about the author's competency based on the reviewer's objective observations about the information provided in the work under review.

Another related issue is reviewing a colleague's work. Because many appraisers know each other, a reviewer may be asked to review a report written by a colleague. In such cases, a critical determination in accepting the assignment is whether or not an objective review is possible—a review not favorably or unfavorably influenced by previous experience of the report's author. If the author is a well-respected senior appraiser or an acknowledged expert appraiser, might the reviewer be inclined to overlook discrepancies or errors? On the other hand, if the author has a reputation as an uneducated slapdash ne'er-do-well, would the reviewer be able to put that opinion aside and give the report an objective analysis? The important point here is that it is more prudent for a reviewer to decline an assignment than to risk creating a review that is mired in unconscious bias.

Don't declare competency or incompetency of the appraiser

This is similar to the edict above, and yet it is worth its own discussion because considerable confusion regarding the issue of competency exists. USPAP provides guidelines for judging competency only by how the appraisal work is performed not by whether the appraiser is competent or not. Reviewers often erroneously attempt

to judge an appraiser's competency based on what is included or omitted in a curriculum vitae (CV), résumé, or statement of qualifications that may be attached to an appraisal, the appraiser's education, or professional association membership. USPAP does not, in most cases, require an appraisal report to include a CV, résumé, or other statement of qualifications (see FAQ #300). USPAP review methodology clearly demands that determining whether an appraisal is credible depends solely on how the work was performed and how that work is communicated to the intended user, specifically in the areas of Intended Use, Market, Asset Type, Geographic Issues, Rules & Regulations, and Analytical Methods. Reviewers analyze these areas using five basic qualities—completeness, accuracy, adequacy, reasonableness, and relevance—as discussed in USPAP comments regarding Standards Rule 3-3(a).

Another reason to avoid addressing competency is similar to the defamation warning in the previous section. Section 5.1 of the ASA Code of Ethics states,

> The Society declares that it is unethical for an appraiser to injure, or attempt to injure, by false or malicious statements or by innuendo the professional reputation or prospects of any appraiser.

Calling an appraiser incompetent could certainly be construed as an unethical act regardless of how justified a reviewer might believe that label to be. A safer and more professional course of action is focusing on the elements of competency and allowing readers of a review report to draw their own conclusions.

Appraisal review and an opinion of value

Depending on the requirements of an intended user, appraisal review can be completed with or without an opinion of value. In some cases, an appraisal review may be requested to include an opinion of value for a different effective date or to make different assumptions than the work under review.

The main point here is to be clear about what is considered an opinion of value within the appraisal review methodology. A common error occurs when a statement regarding the reviewer's agreement or disagreement with the opinion of value—even when engaged to perform a review without an opinion of value. An appraisal review that concurs or disagrees with a report's opinion of value is, in fact, providing an opinion of value. To avoid this situation, the reviewer might more appropriately express that the opinion of value stated in the original report is (or is not) properly supported.

In cases in which a reviewer is requested to provide an opinion of value and determines that the opinion of value in the original report is not properly supported, the reviewer needs to provide a properly supported opinion of value—either with an entirely separate appraisal report or by including the opinion of value within the review report.

> Those items in the work under review that the reviewer concludes are credible can be extended to the reviewer's development process on the basis of an extraordinary assumption,

per comment to Standard 3 (c). note that under Standard 3-3 (c) (i), only the requirements of Standards 1, 5, 7, or 9 apply and not Standards 2, 6, 8,. or 10. It is up to the reviewer to decide whether to create a separate report with specific assumptions or whether the user's requirement may best be served with an appraisal review that includes an opinion of value.

Regarding an opinion of value, a reviewer might even be asked to review an appraisal report of a subject property previously appraised by that reviewer acting as an appraiser. USPAP does not discuss this situation; this is a case in which unconscious bias must be carefully considered. Will the reviewer be able to focus exclusively on objectively reviewing only the appraisal report and process without bias even if it is markedly different from his or her own previous appraisal? If not, the appropriate choice may be to decline this kind of assignment. It's worth repeating that USPAP allows reviewers "broad flexibility and significant responsibility in determining the appropriate scope of work in an appraisal review assignment." In some instances, that may include no scope of work.

Appraisal Review Education

More and more, appraisal review is a vital part of the appraisal profession. While the Appraisal Institute has done much to regulate review in the real estate market, ASA continues to lead the area of appraisal review development and education for other appraisal disciplines. A fairly recent innovation that is proving popular with ASA appraisers is that ARM 201 and ARM 204 are now offered in an advanced, breaking-edge format to already accredited appraisers who are interested in reviewing appraisals in their own disciplines. This streamlines the process of accreditation for experienced appraisers and provides appraisal users with accredited appraisal review experts in specific appraisal disciplines. To learn more about the ARM Specialty Designation or upcoming ARM classes, visit http://bit.ly/ASA_ARM or call 800-272-8258.

Appraisal review is critical for maintaining the public trust and improving appraisal report quality for all appraisers. Fortunately, USPAP standards provide a reliable, flexible, and coherent foundation for appraisal

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review, and education and accreditation opportunities are available for interested appraisal professionals.

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