

Tennessee Real Estate Appraiser Report



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Governor Haslam Appoints New Commission Members

The Real Estate Appraiser Commission welcomes its newest members, Jason Covington who is the AMC representative on the Real Estate Appraiser Commission and Mark Johnstone, an appraiser member representing west Tennessee.

The Commission staff wishes to express our sincere appreciation to our Commission members whose terms on the Commission have ended:

James E. Wade, Jr. and Eric Sanford for the many years of dedicated service and outstanding leadership in giving voice and vision for the past, present and future. You have made an invaluable contribution to the Real Estate Appraisal profession.

Appraiser Qualification Criteria Changes will be changed in Tennessee no later than January 1, 2015

On December 9, 2011, the Appraiser Qualifications Board (AQB) adopted changes to the Real Property Appraiser Qualification Criteria (Criteria) that will become effective January 1, 2015. These changes represent minimum national requirements that each state must implement no later than January 1, 2015. Please note that one of the adopted changes eliminates the “segmented” approach to implementation, which means that as of January 1, 2015, all applicants must satisfy all portions of the new Criteria in order to obtain a real property appraiser credential.

A summary of the changes can be found on The Appraisal Foundation's (TAF) website at: <https://appraisalfoundation.sharefile.com/d/sd2f26fafefe402ab>

Here are some of the things that will change that will affect new applicants, current trainees, and anyone intending to upgrade an appraiser credential:

- Bachelor's degrees will be required for certified residential or certified general applicants. State licensed appraiser applicants will have college level education requirements, but may not be required to hold a degree.
- Fingerprinting and background checks will be required for all new applicants and may be required for current credential holders depending on how law/rule changes are made in Tennessee.
- No “grandfathering” of education, experience, or examination. You must hold the credential prior to 2015 or you will be entirely on the new requirements.
- All qualifying education will have to be obtained within 5 years of application.
- Both Trainees and Supervisors will have course requirements; Supervisors may not have been disciplined within the prior 3 years in a manner that affected their ability to engage in appraisal practice.
- Education and Experience must be completed prior to taking the AQB approved National Uniform Licensing and Certification Examination.



Michael Green has been a Certified General Appraiser for 22 years and held the MAI designation for 20 years. His real estate experience includes a variety of brokerage, development and management positions and he is an active public speaker and teacher. He owns a regional commercial real estate appraisal firm based in Johnson City, TN with 3 Associate Appraisers.



Common USPAP Issues as seen by Commission member Michael Green

One of the most frequently asked questions I'm asked at classes and meetings is "What are the most common violations the Commission deals with?" Here's my non-researched response based strictly on my experience and memory:

1. Scope of Work Issues

So who determines your scope of work? We as appraisers make this determination! Just because a client isn't willing to pay for that Cost Approach or Income Approach doesn't mean you don't have to do one. You can easily put it in the addenda if they don't want to see it, but you must uphold USPAP, including complying with SR 2 requirements. Ask yourself: is my appraisal credible? Can I appraise a new home or office and not process the cost approach? Can I appraise a rental property and not process the Income Approach?

2. Collect, Verify and Analyze all information necessary.....

For the USPAP geeks among us, you probably correctly completed this sentence from SR 1-4 – you people scare me! But in reality, this Standard Rule is so important, I think some appraisers ought to frame it and post it at the front door! If you

want to avoid trouble, you should consistently apply these practices:

- Don't just toss a land value in the cost approach. Include actual lot sales in your report and provide the basis for your unit costs and depreciation estimates.
- Yes, report prior sales of the subject, but also ANALYZE them. Explain to the Intended Users why the subject was listed for so long, sold so low and why you've appraised it so much higher – makes for stimulating reading, right?
- Provide support for your GRM, rents and capitalization rates. Even though the Income Approach takes up so little room on the (residential) form, it is often the source of lengthy disciplinary conversation. Further, even though the subject is rented for \$X, you must still estimate the market rent and provide support for your conclusion.

3. Failure to Reconcile

USPAP is very clear in SR 1-6 but it's amazing how infrequently we appraisers step back, after we've completed the analysis and written the report, and ask ourselves "where are the weak spots in my data, my analysis, my communication?" You can bet every reviewer will be asking these questions – why don't we? It's not

just for USPAP compliance either, make the extra effort to improve your credibility and your value to your clients! Once you've thought through these issues, communicate your thoughts in your reconciliation: what approach is best and why? Which approach is weakest and what makes it so? What information do I lack and what is its impact on my opinion's credibility?

These are a short summary of the USPAP problems that I have seen during my service on the Commission. As appraisers, we are expected to comply with USPAP. If you comply with its provisions and you put forth an honest effort to do what is required, you're more likely to avoid complaints from both Clients and the Commission. As appraisers, the quality and credibility of our appraisals are completely within our control – what quality of work do you choose to do?

USPAP – Uniform Standards of Professional Appraisal Practice as promulgated by the Appraisal Standards Board (ASB) of the Appraisal Foundation

Some Best Practices for Developing and Reporting the Sales Comparison Approach by Steve Barberie

The protracted downturn in real estate markets has resulted in a much wider audience scrutinizing appraisals prepared for banks and other financial institutions. While many institutions have appraisal professionals on staff who maintain primary responsibility for reviewing appraisals and assessing their potential reliability, appraisals prepared for banks are now routinely subject to further scrutiny by both internal and external audiences. These may include internal and external Auditors, internal Credit Review, examiners from the Federal and state banking regulatory agencies, examiners from the Federal Deposit Insurance Corporation, attorneys for the bank and other parties, and even the Securities and Exchange Commission. While bank review staff are often “peer” appraisers with significant experience in valuing real estate in the markets they serve, this expanded audience has a widely varying range of real estate experience, and often very limited valuation experience. As a result, their review of appraisals often generates questions or concerns related to data and conclusions beyond those that a staff reviewer might typically have. Notably, many of these concerns center around the sales comparison approach, specifically relating to the comparable sales selected and adjustments applied in arriving at a value estimate. With this in mind, in the current market, it is imperative that when the sales comparison approach is developed in an appraisal, the data presented and discussion of the analysis applied to the data

must clearly lead any reader to the conclusion that the estimated value resulting therein is reasonable and credibly supported. The following are some suggested “best practices” to assist in improving the clarity of this in appraisal reports.

Sales Data Presented

Documentation should support why the comparable sales presented were selected addressing criteria such as location, market conditions at the date of sale, highest and best use, and physical characteristics of the property. In the current market environment, the pool of potential comparable recent sales available for analysis in a particular market may be quite limited. In 2011, the Appraisal Institute issued “Guide Note 11, Comparable Selection in a Declining Market” (http://www.appraisalinstitute.org/ppc/downloads/2011_guidenote_11.pdf) that provides an excellent discussion on this topic, and it would benefit any appraiser to familiarize themselves with its guidance and incorporate its recommendations in their practice.

In addition to the sales data presented for analysis in arriving at the estimated value, it is often informative to be presented with additional sales data that may have been considered, but was excluded for some particular reason in the final analysis. This is particularly appropriate where the sold properties relied upon may not appear to be highly similar to the subject in some key aspect, or are not quite recent. Presentation of current listings of similar properties available in the market may also help supplement the data relied upon and further support the value estimate.

Some additional points to consider in presenting the sales data considered



include:

- Provide an overview of the comparable sales search effort undertaken, and a statement concerning the reliability of the data presented
- Cite data sources utilized in the search effort – i.e. Commercial Listing Services, Conversations with Local Brokers (Name and Firm Name), etc.
- Briefly state the geographic market for the subject property and the typical buyer profile.
- State the relevant units of comparison that are used in the selection of sales comparable sales.
- If the quantity of available quality sales comparable sales is limited, briefly explain the logic of using properties with more divergent characteristics.
- If a prior (or current) transaction involving the subject property is presented as a sale comparable, discuss its applicability to the current valuation assignment.

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Continued: Some Best Practices for Developing and Reporting the Sales Comparison Approach



“The goal in documenting the sales comparison approach should be to clearly demonstrate that the comparable data relied upon was reasonable and appropriate, and that the analysis undertaken leads to a credible and reliable estimate of value for the subject property.”

Analysis of Presented Sales

Regardless of the quantity of data available for analysis, a reader of an appraisal report would expect the key characteristics of the property and transaction to be presented with a focus on the similarities and dissimilarities between the comparable sales and the subject property. Where differences are apparent and significant, discussion should focus on the rationale for relying on the particular sale, and the reasoning applied to better equate it to the subject property in determining the value it would indicate for the subject. Any question as to whether a particular sale presented is a “qualified” data point for analyzing the value of the subject should be clearly addressed and resolved in the narrative discussion. Of particular note, the focus of the discussion related to the analysis of the presented sales should be on the following key factors:

• **Market Conditions at the Time of Sale.** How do they differ from those prevailing as of the date of the valuation assignment? How are these differences accounted for in the analysis?

• **Conditions of Sale.** Do the conditions of sale match the criteria required for the definition of value being considered? If not, what is the rationale for including the sale, and how is this accounted for in the analysis?

• **Location.** Is the comparable property located in the market in which the subject is likely to compete? If not, what is the rationale for including the sale and how is this addressed in the analysis?

• Highest and Best Use.

Is the highest and best use of the comparable property the same or highly similar to the subject? If vacant, is the development horizon similar? If there are significant differences, what is the rationale for including the sale, and how are the differences accounted for in the analysis?

• Physical

Characteristics. What are the key physical determinants of value for the particular property class? How similar is the sale to the subject in these key areas, and how are differences addressed in the analysis?

• Quantitative v.

Qualitative Adjustments. While not always required, if specific quantitative adjustments are made in the analysis, how were they derived? If qualitative adjustments are made, are they logical and supportable?

• Magnitude of

Adjustments. If an adjustment is required that is unusually large or relatively atypical, what is the logic applied in making the adjustment and determining that the sale remains reasonably comparable for consideration?

• “Bracketing” of

Estimated Value. Do the unadjusted and adjusted value indicators from the

sales “bracket” the concluded value indication for the subject? If not, what is the further rationale for the concluded value being outside the range of indicators?

While USPAP does not require a standard format for presenting the data and analysis, the goal in documenting the sales comparison approach should be to clearly demonstrate that the comparable data relied upon was reasonable and appropriate, and that the analysis undertaken leads to a credible and reliable estimate of value for the subject property. In presenting this information, consideration should be given to the fact that the appraisal may be read by a wide audience with a varying range of real estate and valuation experience.

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Real Estate Valuation
Services*

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Corporation*

Trainees and Supervising Appraisers

Identifying "Significant Real Property Appraisal Assistance"

Taking on the supervision of a registered trainee is a lot of responsibility for certified appraisers in Tennessee. A supervising appraiser is required to sign each written appraisal report prepared by their registered trainee and ensure that appraisal was prepared under their direct supervision. This supervisor must review the appraisal and sign the certification that the appraisal is USPAP compliant. Of course, trainees are required to comply with USPAP as well, but that is a lot of responsibility the supervisor has agreed to take on by becoming a supervising appraiser.

A trainee is not required to sign the appraisal report to gain experience credit; however, if the trainee does not sign the appraisal report, but does provide "significant real property appraisal assistance", then they must be identified in the certification as having contributed such assistance and, also, their contribution to the appraisal must be identified within the appraisal report. For appraisal forms where the certification pages cannot be altered, an addendum to the certification page containing this information is considered acceptable by the Tennessee Real Estate Appraiser Commission. USPAP

does not specifically identify where the work performed by the trainee must be located in the appraisal report, but it must be included within the report. If the supervisor wishes to describe the work performed by the registered trainee in a letter of transmittal then they must ensure that the letter of transmittal was originally included as part of the appraisal report submitted to the client.

In order for a trainee to be granted experience credit toward licensure or certification, their appraisal reports must be found to be USPAP compliant by the Tennessee Real Estate Appraiser Commission. In order to determine this, a sample of the total experience log is requested and those appraisal reports are reviewed by a Commission member. To claim credit, a trainee must have completed at least fifty percent (50%) of the work associated with an appraisal (including preparation and development of the appraisal report) and they must be identified in the appraisal as having provided "significant real property appraisal assistance", per the requirement of USPAP. If the trainee is not identified in the appraisal reports selected for review then

that trainee may lose credit for the entire experience log hours. It is very important for trainees and supervisors to recognize their responsibilities to comply with USPAP requirements and those of the laws and rules of Tennessee.

Tenn. Comp. R. & Regs. Rule 1255-5-.01. Uniform Standards of Appraisal Practice.

(5) An appraiser shall identify all persons providing material assistance in the appraisal report in compliance with the Uniform Standards of Professional Appraisal Practice.

(6) An appraiser shall sign each written appraisal report relating to real property in this state that he or she prepares, in accordance with the Uniform Standards of Professional Appraisal Practice. The appraiser shall not affix his or her signature to any written appraisal report relating to real property in this state which was not prepared under the appraiser's direct supervision.

"Standards Rule 2-3 (of USPAP) requires the name of anyone providing significant real property appraisal assistance to appear in the certification; there is no exception to this rule. SR 2-3 does not require that the tasks performed be identified in the certification, but that

information must appear in the report as required by SR 2-2(a)(vii), (b)(vii), or (c)(vii)." - John Brennan, Director of Research and Technical Issues, of the Appraisal Foundation

For further information on the following related topics visit the Appraisal Foundation's website at:

www.appraisalfoundation.org and click on the "USPAP Q & A" link on the left side of the webpage. Requirement for Signing Reports; Changing the Certification; Significant Appraisal Assistance.



Nikole Avers is the Executive Director of the Tennessee Real Estate Appraiser Commission. She is a Certified Residential Real Estate Appraiser with experience in real estate appraisal, appraisal review and teaching appraisal courses. She is an AQB certified USPAP instructor and she contributed as a subject matter expert for the AQB on the 2008 and 2009 National Real Property Appraiser Examinations. Nikole is currently the Vice-President of the AARO and chair of the Policy and Planning committee.

Real Estate Appraiser Disciplinary Action Report

Disciplinary actions taken by the Real Estate Appraiser Commission against real estate appraiser licensees or those matters relating to unlicensed conduct are reported monthly to the Division of Regulatory Boards. To view the most recent information and archived disciplinary action reports, please visit this web page: <http://tn.gov/commerce/boards/archive.shtml>



USPAP Information:

Third Exposure Draft of Proposed Changes for the 2014-15 Edition of the Uniform Standards of Professional Appraisal Practice

Issued: November 30, 2012

Comment Deadline: January 25, 2013

The ASB is currently considering changes for the 2014-15 edition of USPAP. **All interested parties are encouraged to comment in writing to the ASB before the deadline of January 25, 2013.** Respondents should be assured that each member of the ASB will thoroughly read and consider all comments. Comments are also invited at the ASB public meeting on February 1, 2013 in San Francisco, California. Link to Exposure Draft of Proposed Changes to USPAP: http://www.appraisalfoundation.org/s_appraisal/index.asp

Written comments on this exposure draft can be submitted by mail, email and facsimile.

Mail: Appraisal Standards Board
The Appraisal Foundation
1155 15th Street, NW, Suite 1111
Washington, DC 20005

Email: ASBComments@appraisalfoundation.org

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