

Essay on Appraising

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Today is the 24<sup>th</sup> of July, the day we in Utah celebrate the pioneers coming west and the founding of our state. This has caused me to think about the history of real estate appraising, where we are, and where we are going.

I graduated from the University of Utah and started appraising real estate full time in 1971. So, I have over 42 years of experience appraising. I eventually achieved both the SRA and MAI designations, the highest credentials available in the profession.

I have appraised almost every type of property there is (including all types of Commercial, Land and Residential – and in thirteen different states). I have served in local, regional, and national leadership positions; including twice as Chapter President and 20 years as Education Chair. I have also been an industry representative and lobbyist on Utah's Capitol Hill. I had a big part to play in the writing of the appraisal statute we live under today. I am probably the only local appraiser in the country who had a part in developing the first USPAP class ever. Plus, I taught Appraisal principals, procedures, and USPAP classes for ten years. I think I can speak freely about real estate appraising.

From the beginning of my career, appraisers have been trying to improve. There was a time when appraising real estate was trying to become a recognized profession. Appraiser organizations were continually upping their requirements and improving their instructions to member appraisers and they promoted themselves to the public. All of this was to prove and improve our professionalism. Some great practice and ethics standards were developed from competition among the organizations. But not all appraisers complied with the new standards. The financial crisis of the 1980's was blamed on appraisers and, in 1990, state licenses became required. As part of that process, the standards that had been developed were canonized as the "Uniform Standards of Professional Appraisal Practice" (USPAP).

The USPAP preamble states that "The Purpose of the USPAP is to promote and maintain a high level of public trust in appraisal practice."

I have been thinking about this lately. Are we promoting or maintaining a high level of public trust in appraising? Not long ago, I was asked to do an appraisal on an acre of land with a transmission shop on it. The shop was very clean and well managed. The tenant had approached the owner about selling it to them at the end of their current lease. The owner thought that would be fine, but neither party knew what the price should be. So, both needed to get an appraisal. The owner was my client. When I hand-delivered my report, he seemed surprised - not only with my value estimate but the other appraiser's value estimate as well.

He presented me the other appraisal report. It was by an appraiser I knew. Our values were about 20% apart. I looked the other appraisal over and I immediately recognized what the main differences were. My questions were; had we (me and the other appraiser) failed to maintain a high level of public trust in the appraisal process? And, had we helped the clients solve their real estate problem?

Is it so simple as to say both appraisers had done their job - the outcomes were just different. Or is it so simple as to say I had better comparable sales and a better analysis. Or I spent more time trying understand the property and my appraisal is simply better. The fact is, we could both be wrong, but we can't both be right. Even if we both wrote good reports, we probably caused our clients to mistrust appraisers and that is not promoting a high level of public trust. That bothers me.

Just the other day, a residential appraiser called with a similar situation. He told me about a case where he had appraised a house for what he thought was a fair price and a competitor appraised the same house much higher, making him look bad. I can assume that the appraiser who called me had done a much better job on his appraisal, but we have the same problem. This problem is that the public trust has been violated. It happens all the time.

Has licensing (with its rules, state boards, USPAP, the Foundation, and the subcommittee) done any good? I think, probably not. Still, I really do think we appraisers perform a valuable service and we should do all we can to promote and maintain a high level of public trust in our profession.

As for the second question - Did our appraisal services help the client solve their real estate problems? I think the answer is clearly yes. The other appraiser helped his client decide how much to offer and my appraisal helped my client decide to either accept or hold the property for a while longer.

Why should the public think that two appraisers, who follow all the rules, should come with the same value on the same property? Just because accountants, engineers, and sometimes even doctors do, that doesn't mean appraisers should. The fact is, appraising is not bean-counting. It is not a science. It is a combination of art and science.

Real Estate is simply not completely constant market. In real estate, every property is different and every situation is different. In real Estate there are hundreds of thousands of buyers and hundreds of thousands of sellers making millions of decisions for that many more different reasons. That is why appraiser's estimates are not always the same. That is why we think of appraisals as opinions of value, not facts. But our opinions should be studied and supported and credible opinions. That said, two good appraisals on the same property should come closer than 20% of each other.

I only hope I haven't been part to the public's negative impression of appraising. My only hope is that, when people read my reports, they conclude that I have done a credible job. I am trying to promote public trust and improve the profession. Unfortunately, there are still some practicing appraisers who are not concerned with the public trust, but are more concerned with making easy money. Reduced quality is a natural outcome of setting production goals high and limiting the time spent on each appraisal. That has been a multi-generational challenge for every profession.

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But is that a good enough answer? As professional appraisers, we can and should do better. In my opinion the way to do better as an emerging profession is not through more regulations. That hasn't worked. Perhaps it will be through more and better education. I accept that there is a place for simple, online classes and entry-level education. But what this profession needs is real education; including theory, principals, procedures, standards, and ethics, methods and indoctrination, along with practical experience and rigorous testing. Appraisers should go through an education system similar to lawyers, accountants, engineers, architects, dentists, medical doctors, and other professions who are responsible for public safety. Potential professionals take and pay for years of education and do externships and internships and they take and pass multiple exams. In comparison, an appraiser's State regulated education is relatively easy and prepares them to be more like tradesmen.

I believe the Appraisal Institute's Designation program is close to what we need in order to protect the public trust. But, because of the State's licensing and certification programs, few people achieve designation and the public trust is hurt.

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We, and the public, sometimes think that appraising is a subsection of the real estate industry. But appraising has a lot of subsections and specialties of its own. Like medicine, appraising needs different education and training levels for different subspecialties. Some appraisers have assistants who do research, technical, and/or clerical work who also need training. As the profession grows, we will likely see more specialization but for now, the practical fact is, most appraisers have multiple specialties and do it all in order to stay in business.

Even after many years in the business it will still be interesting to see the appraisal industry grow as a profession and hopefully the public trust will be achieved.