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 **Making Case for an Appraiser’s Judgment**By Tim Andersen, MAI

**Editor's Note:** According to author Tim Andersen, “*judgment* is at the core of what we do and who we are as appraisers.”

It is common for USPAP instructors to hear this question: "I know my adjustments are supposed to have market support. However, what should I do if there just is not any market support for a particular adjustment? Should I not make it even though an adjustment for difference-X really needs to be made?"

Since the imposition of collateral underwriter (CU), it is clear that an adjustment in an appraisal report must have market support. For those of you who have taken the 2016-2017 7-hour USPAP update class, you know that the idea of support for adjustments is woven throughout the class. It is also clear that The Appraisal Foundation (TAF), as well as all of the national appraisal societies, have bought in to this conclusion. The problem is that term "market-support" has no structured definition. Therefore, neither boots-on-the-ground appraisers nor state appraisal boards have any definition for the term "market-support."

Yet, despite this lack of a standard definition, state appraisal boards charge their appraisers with failure to support their adjustments routinely. Those boards then discipline their appraisers for failure to comply with a non-defined standard. To be clear, that appraisers need to support their adjustments is beyond question. That states need to discipline appraisers when they do not properly support their adjustments is also clear. Unfortunately, what is not clear is when an adjustment is necessary or what constitutes market-support.

**Case in Point**An appraiser contacted me recently relative to making a floor height adjustment in an appraisal of a mid-rise garden-type golf course-front condominium. The subject was on the fifth floor, while an excellent comparable, with the same east/golf course view had a second floor location. So, for three floors difference, was an adjustment even necessary?

Part of the problem is the subject's fifth floor location. Because these units also have pitched ceilings (the same units on lower floors do not), in addition to great views, their owners tend to hold on to them since they are unique. Because of this, while there were sales of units with the same floor plans on lower floors, there were no other fifth floor sales to use as comparables.

So, we went back in time. That last sale equivalent to the subject was three years ago (which was the market support for the conclusion that owners tend to hold on to them), so it did us no good. We looked in other buildings in the same general area. However, individual condo projects are generally too dissimilar to one another to use as comps. Eventually, we were able to pair-out an adjustment of about $2,500 per floor. Those data, however, came from a far superior high-rise building, with a far superior ocean-front location.

So, while it was possible to pair-out an adjustment from comparable sales data (which is both the strength and basis of market support) both the applicability and the reliability of the results of this process/adjustment were rightly open to question, since the data sources were not really comparable.

So, what to do?

**Competence and Judgement**Eventually and ultimately, the question came down to a matter of the appraiser's *judgment*. Use the $2,500 per floor adjustment? Use something else? Guess? Not use an adjustment at all but round the final value conclusion to account for whatever influence floor height differences might cause?

In such an instance, an appraiser *must* be able to use his/her judgment in making and applying adjustments. Yet, for various reasons this is a slippery slope. Why? Let’s face it, the judgment of some appraisers is superior to that of others (as a function of experience, training, and education). Yet, USPAP teaches us that competency is a function of judgment and execution. State appraisal boards assume appraisers are competent (i.e., understand the proper uses of judgment and execution) until they are proved otherwise.

Thus, to deny that an appraiser's judgment should be part of how much of an adjustment to use in any given situation is to deny that appraisers can be competent. A competent appraiser promotes and maintains a high level of public trust in appraisal practice in part via the exercise of his/her judgment. Therefore, *judgment* is at the core of what we do and who we are as appraisers.

CU and USPAP must accept that, when on rare occasions and under unique market conditions it is clear that an adjustment is necessary, it may also be clear that the market does not speak loudly enough as to the contributory value of a unique item. Reviewers will need to develop the intestinal fortitude to understand that an appraiser's judgment is a function of countless analyses of the components of various markets over many years. In other words, unless the reviewer has some killer data to which the appraiser was not privy (or which the appraiser blatantly ignored), the reviewer has no reason to second-guess the appraiser's judgment. Again, judgment is part of competency. Once a state certifies an appraiser, that state assumes the appraiser is competent (with all that word implies).

In other words, the appraiser must be able to put in a report language such as this without fear of reprisal or penalty:

It is clear the subject is on the top floor of a mid-rise building, whereas the comparable sales are not. An analysis of the subject's market going back three years did not indicate the arm's-length sale and purchase of a property such as the subject. It was possible to pair-out a floor height adjustment from other sales, in other buildings, in other projects. However, the appraiser concluded these data were insufficiently similar to the subject to use them reliably to conclude a floor height adjustment in the subject building.

Therefore, the conclusion not to adjust the comparables for their floor height differences with the subject had its basis primarily in the appraiser's experience and judgment, rather than clear and convincing sales data from the purchase and sale of other, similar units in the subject's building. The appraiser's conclusion to make a -$0- floor height adjustment is also the result of an analysis of the market, which currently is silent as to this adjustment. It is the appraiser's judgment that such a silence indicated a -$0- adjustment is one the market currently justifies.

Please understand this is not to advocate appraisers should be free to make adjustments willy-nilly. They must justify their adjustments and then support them from the market. That step will serve to promote and maintain the *Public Trust* in what it is we do.

Nevertheless, TAF, Fannie Mae, and appraisal reviewers must understand that there are rare circumstances when there is no market support for an adjustment, yet that adjustment still needs to be made. In those cases, these parties must recognize the appraiser's *judgment* will have to suffice (accompanied by a detailed explanation of what the appraiser did to discover there were no applicable data from which to deduce an adjustment).

Otherwise, not only are so many appraisers mere form-fillers but are merely filling the form with the data the client is willing to approve. That is not appraising- this is something else that is often called the world’s oldest profession.

**About the Author**
Timothy C. Andersen, MAI is the author of the [Expert’s Guide to a Defensible Workfile](http://www.workingre.com/experts-guide-defensible-workfile/) and has been in real estate and consulting since 1975. He is a commercial real estate appraiser, AQB-certified USPAP instructor, USPAP consultant, Special Magistrate for the Palm Beach County Value Adjustment Board, author, instructor and expert witness. Andersen now offers a new report and workfile peer review service to help you sharpen your report-writing skills and workfile preparation. By uncovering and correcting common mistakes and inconsistencies, Andersen puts his experience and expertise to work for you. Ensure a better future by improving your skills. One workfile review order includes a free copy of Andersen’s e-book [Expert’s Guide to a Defensible Workfile](http://www.workingre.com/experts-guide-defensible-workfile/) ($49 value). OREP insureds enjoy 50 percent off this valuable review service, normally $250 and up for a residential appraisal report. Isn’t it time for a professional checkup from someone who’s on your side? For more on this valuable service you may contact Tim directly: maitca@bellsouth.net.



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