



Alabama Real Estate Appraisers Board

VOLUME 19 NO. 1

THE APPRAISER BULLETIN

SUMMER 2017

BOARD SPONSORED EDUCATION COURSE

We've now had three offerings of **"Common Mistakes Found During Investigations"**. These offerings were in Montgomery, Jasper, and Oxford, with two more scheduled in Spanish Fort and Huntsville before the end of this fiscal year. I'm excited to say that we've had great attendance in all offerings with excellent and very positive feedback.

The Board hopes that this course will help appraisers understand what the Board looks at during an investigation and the mistakes that the investigators report to the Board. The ultimate goal is to produce more credible reports by Alabama licensees and reduce the number of cases where the Board imposes discipline against appraisers. Below are a few pictures from our Oxford offering.



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Cost Approach or No Cost Approach

Several of your clients tell you that they do not want the **Cost Approach** and it is not required for their assignments, no matter what. Is this a valid reason for not doing the **Cost Approach**? The answer would be **NO**, that is not a valid reason to omit the **Cost Approach** from the Scope of Work. Several internet appraisal discussion groups are saying the **Cost Approach** is not a reliable real estate valuation method. This is not true, if done correctly the **Cost Approach** to value can be and is a very reliable appraisal method and it is still recognized as one of the appraisal valuation methods. After talking with a lot of appraisers I cannot think of a valid reason for not doing the **Cost Approach** for new construction or any other time that it would produce credible results. Does this mean that you are always required to do a **Cost Approach**? **NO**, if there is a valid reason for not completing a **Cost Approach** and it is not necessary for credible results, you may exclude it but you must explain in your report why it is omitted.

The **Cost Approach**, like the Sales Comparison and Income Capitalization Approaches, is based on market comparisons. Depending on Marshall Swift or other cost services alone is not going to always give you a true replacement cost. Marshall and Swift costs include contractor's overhead and profit however entrepreneurial incentives or developers' overhead and profit are not included. Entrepreneurial incentive and profit are market derived values. The market data for development of the **Cost Approach** can be Local Builders, who would be very good sources for determining current replacement cost in your area. Local builders are a good (and very possibly the only) source for entrepreneurial profit. **A caution: try to get information from more than one or two builders.**

As we all know, costs are always going up, so a home built today will cost more to build than even a year ago and often times, sales that closed even in the past six months are not going to be in line with current building costs. Marshall & Swift Cost figures may be lagging behind current cost also due to increases in materials and labor. While talking with builders you can verify Marshall & Swifts cost figures and use the data to adjust the Marshall & Swift data.

The **Cost Approach** is a real estate valuation method that surmises that the price a buyer should pay for a piece of property should equal the cost to build an equivalent building. In **Cost Approach** appraisal, the market price for the property is equal to the cost of land plus cost of construction, less depreciation. When done correctly and information gathered from the market place correctly, the **Cost Approach** can and will produce credible results that can help support your opinion of value.

DISCIPLINARY REPORT

The Alabama Law requires the Board to regulate the conduct of appraisers in Alabama. The Board's Administrative Rules outline the procedure for handling complaints. The Uniform Standards of Professional Appraisal Practice provide the basic ethical standards for which appraisers must comply. Appraisers should carefully note the following violations, which resulted in disciplinary action of the Board.

AB 15-24 On September 15, 2016 the Board approved a Consent Settlement Order from a Certified Residential appraiser where Licensee agreed to a private reprimand, a \$2250 administrative fine and a 15 hour USPAP course with exam. The violations in the appraisal report were: The Board alleges Licensee failed to provide sufficient information to enable the intended user(s) of the written appraisal report to understand the report properly. Licensee, in the Site/Zoning Description section, provided the description of the R-1 zoning as Residential. Residential does not provide sufficient information, for the intended user to understand what type of residential use single family residential, multi-family residential, etc., that would be permitted in the R-1 specific zoning classification. Licensee failed to provide an analyses of the amount of waterfront, type of access to the waterfront from the street, topography of the property in relation to the street and waterfront (functional utility) and other characteristics associated with property being located on a river. In the Reconciliation section, Licensee failed to reconcile the applicability and relevance of the Cost Approach being employed within the appraisal assignment.

The Board alleges Licensee failed to clearly and accurately set forth the appraisal in a manner that was not misleading. In the Neighborhood/Marketing Time section the Marketing Time is indicated as 3-6 months. In the Neighborhood/Market Conditions section, Marketing Time is indicated as 1-12 months. In the Site/Dimensions section Licensee provided the rear dimension (waterfront side of lot) as 576 feet. Licensee failed to recognize the dimension was grossly inaccurate and reported the dimension without sufficient verification. MLS reported 179 feet of waterfront. Licensee, within the Sales Comparison Approach/Comparable #1/Date of Sale section, reported sale occurred in 2013 when the actual date was 2014, for the contract date and sale date. Licensee, within the Supplemental Addendum section, provided a comment the effective age of the comparables could not be determine due to the lack of an interior inspection. In another paragraph of the Supplement Addendum, Licensee provided the condition of a comparable could be determine from MLS data. The comments conflict and is not clear, since the effective age of a property is a component of the condition of the property.

The Board alleges Licensee provided a flawed reconciliation in developing the Indicated Value by the Sales Comparison Approach. Licensee commented in the Additional Comment section - Sale #4 was given the most weight due to 'Relatively Low' net adjustment percentages and proximity. Licensee made a conflicting comment in the Comment Addendum - Sale #1 is given the most weight due to 'Relatively Low' net adjustment percentages. It is not clear in the appraisal report which sale was given the most weight due to the conflicting comments.

Licensee analyzed an arms-length sale, conventional financing, SP=\$450,000, which was not the terms of the sales contract and addendum.

The Board alleges Licensee failed to collect, verify and analyze all information necessary for credible assignment results in the approaches employed and failed to analyze the Subject property storage buildings and bulkhead when compared to the comparables.

Subject features not analyzed, where a comparative analysis could be provided. Licensee, within Comparable #1, analyzed the property as being waterfront with a pier. Licensee failed to analyze the length of the waterfront (110 feet) with a bulkhead, boat shelter, boat lift, dock and home generator and changed the condition adjustment from -\$10,000 in the original appraisal report to -\$25,000 in the amended report without support for the change in the workfile. Licensee, within Comparable #2, analyzed the property as being waterfront with a pier. Licensee failed to analyze the length of the waterfront (240 feet), boat facility with boat/wave runner lifts, loft, fish cleaning station, wet bar and dining area and changed the quality of construction adjustment from -\$10,000, in the original appraisal report to -\$25,000 in the amended reports of the subject property without support in the workfile. Licensee, within Comparable #3, analyzed the property as being waterfront. Licensee failed to analyze the waterfront length (100 feet) with a bulkhead. Licensee changed the condition rating from C4 (\$0 adjustment) in the original appraisal report to C5 in the amended reports with a + \$25,000 condition adjustment. The Supplemental Addendum page of the amended report stated the change was at the lender/client request. There was no support in the workfile for the change. Licensee, within Comparable #4, analyzed the property as being waterfront with a pier. Licensee failed to analyze the length of waterfront (200 feet) with a wharf or the storage building. Licensee, within Comparable #5, analyzed the property as being waterfront. Licensee failed to analyze the waterfront of 124 feet with a bulkhead and the one bedroom/one bath cottage. Licensee, within Comparable #6, analyzed the property as being waterfront with a pier. Licensee failed to analyze the reported 150 feet of waterfront with a boat lift, dock with boat slip and bulkhead, home generator and adjusted for only one of three fireplaces for the home. Licensee, changed the quality of construction adjustment from -\$10,000, in the original appraisal report to -\$25,000 in the amended reports without support in the workfile. The effective age was not supported in the appraisal report nor documented in Licensee's workfile.

Licensee provided an opinion of value in the original report dated February 13, 2015 as \$450,000 and February 16, 2015, as \$450,000 and in subsequent revised reports dated February 25, 2015, February 26, 2015 and March 2, 2015 as \$365,000. The Board alleges that Licensee failed to provide analyses to justify the decrease in the value opinion and failed to completely analyze the agreement of sale and only one of the parcels of property under contract was appraised.

The Board alleges Licensee failed to fully disclose the research and analysis performed and the research and analysis not performed by Licensee for the waterfront property appraisal assignment.

The Board alleges Licensee failed to prepare a complete workfile of an appraisal assignment insofar as his workfile did not contain support of the opinion and conclusions of the effective age, Cost Approach, and the opinions/conclusions provided within the Sales Comparison Approach.

The Board alleges Licensee failed to comply with the Conduct section of the Ethics Rule of the Uniform Standards of Professional Appraisal Practice by willfully and knowingly prepared an appraisal assignment of waterfront property in a grossly negligent manner by having knowledge of the characteristics of waterfront property and failing to analyze these characteristics for the appraisal assignment. The value difference in the original appraisal report and several revised appraisal reports was not explained in the report nor supported by the workfile. The Board further alleges Licensee failed to prepare a complete workfile of the assignment and willfully or knowingly violated the requirements of the Record Keeping Rule.

Letters of Warning were issued on the following investigations for the discrepancies indicated. This disciplinary action will be considered in any future discipline proceedings:

AB 16-02 The appraisal of vacant land where the actual use or the highest and best use is not residential one to four is outside the scope of the Certified Residential appraiser license if the transaction value is over \$250,000. The highest and best use analysis in this appraisal is marginal.

AB 16-03 The appraisal of vacant land where the actual use or the highest and best use is not residential one to four is outside the scope of the Certified Residential appraiser license if the transaction value is over \$250,000. The highest and best use analysis in this appraisal is marginal.

AB 16-01 On November 17, 2016 the Board approved a Consent Settlement Order from Certified Residential appraiser Travis Grant Berry, R00784, where Licensee agreed to pay a \$500 administrative fine. The violations in the appraisal report were: Licensee did not include in the report the summary of facts analyzed to support the opinion of the highest and best use. Licensee provided the effective age of 4 years for a home built in 2005 (*actual age of 8 years at the time of the appraisal*). The Licensee did not include in the report a summary of facts analyzed to support an effective age less than the actual age. Licensee failed to provide a list of all the verification sources consulted when selecting sales data. USPAP 2012-2013 was the current edition of USPAP at the time of the appraisal assignment and Licensee stated he used the 2010 edition. In the URAR/Site/Dimensions section, the source of the dimensions analyzed was stated but failed to provide the actual dimensions. In the URAR/Cost Approach/Support for the Opinion of Site Value section, Licensee failed to provide the data/information analyzed to support the opinion of site value. In the Photograph Addendum/Comparable section, Licensee failed to inform that he used MLS photographs.

LICENSE RENEWAL

Annual license renewal post cards will be mailed to all licensees the first week in August 2017 for the licensure year, which begins 10-1-17. Blank renewal forms can also be obtained from our website at www.reab.state.al.us after August 1, 2017. All renewals should be submitted online or by mail to reach the Board office no later than September 30, 2017 to keep your license valid and avoid payment of late fees. September 30 postmarks will be honored.

Allow one week for the renewal process if received at the Board by August 30, 2017, two weeks if received between that date and September 16, 2017 and three weeks if received later. Your current license certificate reflects an expiration date of September 30, 2017. You will receive a new certificate with an expiration date of September 30, 2019.

Continuing education will be due with this license fee renewal. As before, 28 hours of continuing education taken after October 1, 2015 will be required. Please remember 7 of the 28 hours must be the National USPAP Update, the 15-hour USPAP will not substitute.

Please visit the Education Page of our website to view all approved continuing education courses.

Alabama Real Estate
Appraisers Board

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CHANGE OF ADDRESS FORM

In accordance with the Code of Alabama, 1975, §34-27A-16, which requires **IMMEDIATE** written notification to the Board of changes in business and resident addresses, **PLEASE CHANGE MY ADDRESS TO:**

Business: (Preferred Mailing ____)	Home: (Preferred Mailing ____)
_____	_____
_____	_____
Telephone No.: _____	Telephone No.: _____
Signed: _____	License Number: _____
Date: _____	