

## READING THE WHOLE REPORT

### Reporting Formats

Some members will recall that prior to January 1, 2001 under the Uniform Standards of Professional Appraisal Practice (USPAP) rules, appraisers could use three reporting formats for their clients. Reports could be: a self-contained report, a summary report or a restricted report for each of the two appraisal processes (complete and limited).<sup>(1)</sup>

As of January 2001, under the then new Canadian Uniform Standards of Professional Appraisal Practice (CUSPAP), the reporting formats became: a full narrative, a narrative, a short narrative and a form report.<sup>(2)</sup> The difference between a full narrative and a narrative revolved around the use of an extraordinary assumption. If the appraisal process included an extraordinary assumption then the report was to be a narrative and only if it did not contain an extraordinary assumption could the report be termed a full narrative. This difference did not make sense because the name of the report was being used to distinguish the type of appraisal process rather than its descriptive content.

In light of further discussion and review of this matter, the terminology was changed with the 2005 CUSPAP so that the reporting formats were reduced to three, namely narrative, short narrative and form.<sup>(3)</sup>

Currently, what we refer to as narrative reports may or may not involve an extraordinary assumption. Since there's much to be told about a property, in our appraisal work, we prefer the longer format (the narrative or short narrative). This format provides the appraiser with ample space with which to properly and fully describe the investigation, the analysis and the presentation of the market value estimate.

### Disincentives To Read The Whole Report

Several years ago, a candidate in our firm submitted a demonstration report (of course it was a narrative report) for review. A member of the review panel was critical that the estimate of market value was not included in the letter of transmittal. We took exception to that criticism because we never include the estimate in the letter of transmittal for the following reason. We think that any and all clients should read all of the report (many do not). By including the estimate of market value in the letter of transmittal, we believe this presentation provides an incentive to the reader/client to go no further.

However, we want the reader/client to read the whole report and not just the first page of the report (or just the summary page) and so we encourage the client to read all of the report in several ways. One way we do this is to state in each letter of transmittal the following:

*“For ease of reading, the report contains a summary of important facts and conclusions. As well, the certification, assumptions and limiting conditions, including any extraordinary assumptions and limiting conditions have been grouped together in identified sections of the report so please read **all** of the report.”* – the bold emphasis I have added for this article.

The final paragraph of the letter of transmittal reads: *“Once you have read the report in its **entirety**, if I can be of additional assistance or if you need additional clarification, please do not hesitate to call”* – again the bold emphasis has been added for this article.

### **Extraordinary Assumptions**

Certainly a key aspect of an appraisal may be the use of an extraordinary assumption. Clients often want to know what a property is worth if there is an addition, a major renovation or if a whole new structure is being added to a property. In these cases, it is usually the client that specifies that the assumption(s) be made. The assumption that the building has been added or the major renovation has taken place is indeed significant and hence the term “extraordinary” is used. All such extraordinary assumptions require hypothetical conditions and that’s what sets them apart from standard assumptions that we might make about a property such as the assumption that a property has a clean environmental assumption.

In a recent comment about the use of extraordinary assumptions and hypothetical conditions, a member of the Investigating Committee reminded us that all such extraordinary assumptions and extraordinary limiting conditions need to be placed together with the estimates of market value.<sup>6</sup> This means that they should appear, (in addition to being a part of the building description and possibly a part of the highest and best use description), in the conclusion of each approach to value, in the reconciliation, in the certification and also in the summary page of important facts and conclusions. While this can be accomplished using the pickup features of a word processor such as Word<sup>®</sup>, it can become cumbersome if there are more than one extraordinary assumption and or limiting conditions.<sup>6</sup> There may also be other more standard assumptions,

such as a property having a clean environmental assessment in each report, that we also want to draw to the reader's attention.

As a result, in an attempt to reach a balance among clarity, conciseness and completeness, in addition to a statement about extraordinary assumptions along with the estimate of value,<sup>6</sup> we also include the following comment in each narrative report early on in the section that briefly outlines the nature of CUSPAP:

"This appraisal is considered to have been completed while invoking certain **extraordinary limiting conditions** and an **extraordinary assumption** (please see page xx of this report)."

It seems reasonable to expect that a client would want to (and should if they are doing their due diligence) read all of a report even if it is 50 pages in length. If it takes the appraiser 20 hours or more to complete the following: travel to and from a property, inspect the property, determine its highest and best use after confirming its zoning and official plan status, to gather and analyze comparables (possibly complete more than one approach), reconcile the approaches, and to arrive at a final estimate of value, to proof and then print the report (or create and secure a PDF), then surely the client can take 40 minutes or so to read the whole report. Is that too much to expect?

### **Other Important Elements of a Narrative Report**

Market conditions are another important element of any appraisal of a property's value and must be an integral part of any appraisal report. What's happening to vacancy rates? Are absolute sale numbers and sales levels rising, falling or are they stable? What features are critical for current buyers and does the subject property have them? What trends are taking place in the subject's market and how do they impact on the subject? A thorough discussion of market conditions is no less important than an extraordinary condition that the client has already specified.

The quantity and quality of the comparables is also important. Were there many comparables to choose from or is the market especially thin for this type of property? Were there any paired sales to support adjustments (have we even told the reader what a paired sale is)? How difficult were the adjustments to substantiate? Are dealing with quantitative or qualitative adjustments? These are all aspects that need to be described in a narrative report. For a client, who is also a lender, these elements should help to give them some sense as to the ratio of lending they should be

undertaking. While it is not the appraiser's role to comment on the creditworthiness of borrowers<sup>®</sup>, certainly property markets are less than perfect and are not without risk. There is nothing magical about a 75% to value lending ratio. It is not a rule that lenders should necessarily cling to if the property is unique, if there are a few comparables or if there are only poor comparable sales. While we read of sub-prime mortgages, perhaps we should recognize that there may be sub-prime properties. These are all elements that can assist potential lenders in gauging their risk and should be in a narrative report. However, full and proper descriptions of these important elements can't be contained on just a single summary page.

### **Do Our Clients Actually Read Our Reports**

On certain occasions I've been called about a report with a question from a client. "What about this or is such and such in the report". The answer is usually "if you look on page x you'll find what you're looking for".

I recall a private client calling me after receiving the report on their property (a horse farm). The client (not very familiar with appraisal reports) was calling to tell me that the pictures I had included were not of their farm. I was horrified – had I included the wrong picture I wondered as I quickly brought the report up on the computer screen? I remembered the story about a prominent member of our Institute<sup>®</sup> who had done just that many years ago and was rightly censured for the error but had I now done the same thing? I asked the client what page they were looking at so that I could check for myself and the client told me to look at page x.

There on page x, were pictures all right, but they were the Indexes used in the appraisal analysis (and clearly identified as such). This was explained to the client (with much relief for the client and also for myself).

While we sometimes might banter back and forth with our regular clients about reading the whole document, the report clearly needs to be read in its entirety if the client is to have a full and proper understanding of the appraiser's final estimate of value for a property. All of these important aspects simply can't be described on a single page, otherwise we are wasting our time writing 40 or 50 pages when only one page would suffice.

### **The Perception of Boilerplate**

While regular clients may think there is not much more than boilerplate in these narrative reports and there surely is some repetition (such as headings and format, the definition of market value and the descriptions

of the three appraisal approaches), each part of the report will certainly have specific parts pertaining to the subject at hand.

One example of this deals with the “property tax assessment” of each property. In Ontario, MPAC has recently updated its current value assessment of all properties across the province as of January 2012. Since they have provided an estimate of value for the subject property, we feel obliged to comment on the assessment of the subject property in each appraisal report. In an appraisal I completed on some vacant farmland, MPAC was using a rate of \$5,200/acre for tilled farmland for their “current value estimate” of the subject property. It was easy, but also important, to point out that the comparable sales in the same market area were indicating between \$10,000 and \$10,500/acre for tilled farmland. While the heading in this section of the report was a standard one and the statement that *“the assessment reflects the opinion of the local Assessment Authority of the current value of the subject on the basis of January 2012, however, no sales data is included with assessments to support their estimates”* was a standard statement used in more than one report, there’s nothing boilerplate about pointing out the difference between the current assessment and what current sales were indicating in the subject’s immediate market area.

Similar examples could be cited about the legal constraints placed on a property through an official plan and a zoning by-law. While the headings may appear to be boilerplate, the ensuing discussion about the probability of a zoning change for the subject property that would first require an amendment to an official plan is indeed an important part of the highest and best use analysis. This is particularly the case for properties that are at or near the margin of transference between one type of land use and another<sup>100</sup>.

## **Conclusions**

While, we need to make clear and precise references to extraordinary assumptions and limiting conditions, and we do need to highlight and to bold certain important aspects in a report and we do need to have clear and concise reports that follow the Appraisal Standard Rules, we also need to encourage our readers to read the whole report with statements to that effect. Indeed, they’ve paid us for the whole report.

**Endnotes:**

1. Since each appraisal process (full or limited) could each be reported in one of three ways (self-contained, summary or restricted), it meant that there were six different reporting combinations for clients. This was very difficult for appraisers to follow and even more difficult for clients to comprehend. Fortunately, it was somewhat simplified with the adoption of CUSPAP in 2001.
2. See CUSPAP 2001 Edition, The Appraisal Standards Board, Definitions page 1.
3. See CUSPAP 2005 Edition, The Appraisal Standards Committee, Definitions page 1. Curiously, while there is no CUSPAP requirement to name the type of report, report types are an integral part of the Standards because they are a part of the Definitions.
4. Doyle Childs, AACI, P. App, Member Investigating Committee, Use of Extraordinary Assumptions and Hypothetical Conditions, Canadian Property Valuation: Volume 52, Book 4, 2008, page 36. See also CUSPAP 2008, 7.11.2.
5. Powerful word processors such as Microsoft's Word, with their rich formatting features should be the basis for all narrative reports.
6. For example, we are not professional title searchers and we do not engage in title searches (and we state so in each report) and therefore all of our appraisals include an extraordinary limiting condition concerning the absence of a full and proper title search.
7. Together with the estimate of value we add: "please see page XX for any specific and extraordinary assumptions or limiting conditions that may form an important part of this value conclusion."
8. Robert Patchett, L.L.B, CD, AIC Counsellor, Professional Practice, Letters of Transmittal/Reliance – Business Opportunities and Risks, Canadian Property Valuation: Volume 52, Book 4, 2008, page 38.
9. The member, who shall of course go unnamed, was an active member of the Appraisal Institute and was an excellent teacher of appraisal theory – we can all make mistakes.
10. As an example, this occurs where lower orders uses meet higher order uses (that are often expanding) such as where farmland uses meet up with residential uses. See also Raleigh Barlowe, *Land Resource Economics*, 4<sup>th</sup> Edition, Prentice Hall Inc., 1986, pages 152-3.