

THE APPRAISER



Arkansas Appraiser Licensing and Certification Board

Summer 2015

Volume 23, Issue 2

Top speakers and high attendance mark 2015 Day with Appraisers event

In mid-May, the Arkansas Appraiser Licensing and Certification Board (AALCB) hosted the annual Day with Appraisers (DWA) continuing education seminar. Over 230 appraisers from all corners of the state convened in Little Rock to learn from two outstanding speakers.

“Day with Appraisers is the largest annual gathering of Arkansas’s real estate appraisers,” said Drew Vance, Chairman of the Arkansas Appraiser Board. “For almost 25 years, we’ve organized this event to accomplish two important purposes. First, DWA delivers first-rate continuing education for a wide variety of appraisers. Second, this event provides valuable in-person contact among the participating appraisers. They all benefit from conversations with friends and associates from across Arkansas.”



The speakers at this year’s seminar included Peter Christensen, who is general counsel and attorney for LIA Administrators and Insurance Services in Santa Barbara, California. Mr. Christensen, who is considered a national expert with respect to insurance issues and appraiser liability issues, focused his presentation on liability-reducing guidance for all kinds of appraisers. He provided a wide range of examples



regarding what to do and what not to do in developing appraisals.

The afternoon speaker for 2015 Day with Appraisers was Tim Andersen, MAI, and a practicing Certified General real property appraiser in Florida.

Mr. Andersen has written a number of articles on techniques for improving appraisal report quality. Additionally, he recently published a popular book on appraisal practice, *How to Raise Appraisal Quality and Minimize*

What's Inside:

DWA Pics	Page 3
Reinstatement Rules	Page 2
4 New Board Members	Page 4
Good-bye to 4 others	Page 5
Resignation of Johnson	Page 5
Fact Sheet	Page 6
Insight on inspections	Page 7
CE class in Fayetteville	Page 7
Bonus Article	Page 8

Cont. from page 1, Top Speakers

Risk: The Appraisers Guide to a Defensible Work File.

Evaluation forms submitted by the participants in this year's DWA gave both speakers high marks.

"For appraisers in Arkansas, this event has no equal," said Lee Gordon, Executive Director of AALCB. "Arkansas appraisers are always anxious to learn more about their profession. Additionally, they place a high value on opportunities to have conversations with their peers." Gordon added that the combination of excellent seminar presenters, appraiser-to-appraiser contact, and a comfortable location makes this event first-rate and beneficial to the appraiser community in Arkansas.

Planning has begun for next year's event. Suggestions for speakers and topics are always welcome.



Board develops rules to implement reinstatement law

The Arkansas General Assembly passed Act 1066 this spring. The Act, which went into effect on July 22, calls for state licensing boards to develop rules to reduce reinstatement requirements for those who have been previously certified, licensed, or registered.

The Rules, Regulations, and Policy Committee of the Arkansas Appraiser Board has proposed rules to implement the Act and the Arkansas Appraiser Board recently adopted those rules. Before those rules can go into effect, they must be filed in accordance with the Arkansas Administrative Procedure Act and be reviewed by both the Governor's Office and the General Assembly's Administrative Rules and Regulations Committee. This detailed process also involves a thirty day public comment period.

The proposed rules will be filed soon and will be posted on the AALCB website. A notice of the public comment period will be published in the *Arkansas Democrat-Gazette*.



Day with Appraisers - 2015



Governor Hutchinson appoints four new members to Arkansas Appraiser Board

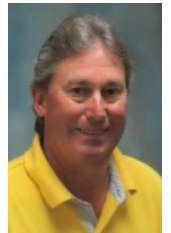
The Arkansas Appraiser Board saw a significant change in membership this spring. The second and final terms of four members of the board members came to an end in January. However, the statute governing appointments to the Appraiser Board required that they continue as members until replacements were appointed. Those appointments were made in early May and the new board members attended their first meeting on Wednesday, May 14, here in Little Rock.

Governor Hutchinson appointed the following as new members of the Board:



Brian Hester, Certified Residential Appraiser. Brian has been an appraiser since 2002 and established Hester Appraisals, Inc. in 2009, working primarily in Benton and Washington Counties. He lives with his wife Kendra and two children in Farmington.

Scott McKennon, Certified General Appraiser. Scott is a former member and chairman of the Arkansas Appraiser Board. Scott and his wife Karen reside in Morrilton, where he is an Agriculture Lending Officer for First Financial Bank. Scott is a member of the American Society of Farm Managers and Rural Appraisers. He received his Accredited Rural Appraiser (ARA) designation in 1991.



Tom Ferstl. Tom, who is both a Certified General Appraiser and an attorney, is the founder of Ferstl Evaluation Services in Little Rock. In addition to having been an instructor of real estate classes at UALR, Mr. Ferstl is the past President of the Arkansas chapters of the Society of Real Estate Appraisers, The Appraisal Institute, and the Institute of Real Estate Management. He was appointed to the Senior Citizen position on the Appraiser Board.

Cary Matthews, Certified General Appraiser. Cary is Vice President and Chief Appraisal Officer for Farm Credit Midsouth in Jonesboro. A graduate of Arkansas State University and the Barret Graduate School of Banking, Cary earned in 2012 the designation of Accredited Rural Appraiser (ARA) from the American Society of Farm Managers and Rural Appraisers. He is active with the Jonesboro Regional Chamber of Commerce.



Additionally, **Pete Prutzman**, the current Vice-Chair of the AALCB, was reappointed by the Governor to a second three year term on the Board. Pete, a Certified General Appraiser, is President of Kingwood Forestry Services in Arkadelphia. Kingwood specializes in timberland appraisals, sales, and land management. Prior to his appointment to the Arkansas Appraiser Licensing & Certification Board, Pete served on the Arkansas Board of Registration for Foresters.

The Arkansas Appraiser Licensing and Certification Board was established in 1991 to regulate practicing appraisers in the state. It also registers appraisal management companies. The Board meets approximately six times per year in public meetings at the agency's offices in Little Rock. The Board is supported by committee activities and a four member staff.

Grateful for service to Appraiser Board

With the appointment of four new members to the Arkansas Appraiser Board, four other appraisers who served well and diligently have left the Board. Bob Costner, Burney Lightle, Rick Mahan, and Rhona Weaver held seats on the board for over six years. Appointed in 2009, they arrived when Jim Martin was Executive Director of the Board. These Board members served tirelessly and with commitment through several years of transition at the AALCB.

The current board and staff wish to express their appreciation and gratitude for the work of these board members. The AALCB is a stronger, more effective state agency because of the efforts of these conscientious and dedicated appraisers. Thank you!

Thank you!

Board consumer representative Samantha Johnson resigns

Moving to Texas

After serving on the Arkansas Appraiser Licensing and Certification Board for over two years, Samantha Johnson has submitted her resignation. Until recently an agent for Crye-Lieke Realtors in Marion, Samantha held the Consumer Representative position on the Board.

Samantha has moved to Frisco, Texas with her family. She is working for Keller-Williams Realty. Frisco is about 25 miles north of Dallas. She explained that this move offered a number of opportunities for her family and her.

Drew Vance, Board Chairman, expressed regret regarding Samantha's departure from the board. "With her real estate sales background, Samantha was an ideal consumer representative. She had a good grasp of the real estate appraiser profession and offered valuable insight on a variety of issues. We will miss having her on the board, but wish her the best."

Samantha's resignation was effective June 30, 2015. An appointment to fill that position on the board will be made by the Governor at a later date.

“Fact Sheet” data on appraisers in the United States

Each December, the Appraisal Institute research department updates its fact sheet on the valuation profession in the United States. The appraisal field is changing and it is occasionally useful to see how that is reflected in numbers and percentages. The information below is taken (with recognition and appreciation) from the 2014 Appraisal Institute Fact Sheet.

Actual number of real estate appraisers in the U.S. in 2014	78,800
Actual number of real estate appraisers in the U.S. in 2010	90,500



Percent of U.S. real estate appraisers with a license or certification in more than one state:

2014	18.6%
2010	17.1%

Length of time in the valuation profession for U.S. appraisers:

20 or more years	57%
15 - 19 years	9%
10 – 14 years	15%
5 – 9 years	10%
Less than 5 years	9%

U.S. appraisers by gender:

Male	74%
Female	26%



Additional facts: 58% have a bachelor’s degree, 90% are white, and 79% make less than \$150,000 per year.

The story on supervisors, trainees and inspections

by Diana Piechocki, Chief Investigator

One of the Appraiser Qualification Board (AQB) changes for 2015 requires completion of the Supervisor Appraiser/Trainee Course by both supervisor and trainee appraisers. At present, the Arkansas Appraiser Licensing & Certification Board (AALCB) is offering this course and I am one of the instructors. The response to the course has been overwhelmingly positive.

This course gives the AALCB the opportunity to go through, step-by-step, the requirements of becoming an appraiser, upgrading appraiser credentials, as well as expectations of supervisors. The AQB provides a detailed outline of the topics to be included, but the most informative discussions are during the question and answer sessions. We all learn from the give and take among appraisers.

The most frequently asked question we hear at these events involves when a supervisor may allow a trainee appraiser to inspect a subject property unaccompanied. The AALCB rules and regulations state, "The supervising appraiser shall personally inspect, with the Trainee/State Registered appraiser, each subject property and comparable sale until the Supervisor determines that the appraiser is competent to perform such appraisals." However, as a word of caution, please make certain you follow the requirements indicated in the appraisal engagement letter. Some clients require inspection by the supervisory appraiser in every instance. Also, keep in mind the USPAP requirement to acknowledge such assistance in the certification and identify the type of assistance in the appraisal report.



How does an appraiser create a misleading report with simply the inspection? They do this by not identifying the work of another, or by attempting to circumvent their responsibilities by including ambiguous statements. Be clear in your appraisal report who, by name, inspected the property and who did not. Not only is it a requirement of USPAP, it will strengthen the credibility of your report.

Our next class is August 27th in Fayetteville. Registration information is available on our website. So far in 2015, over 100 people have attended this course.

INFO ON OUR NEXT SUPERVISOR/TRAINEE COURSE

Our next Supervisor/Trainee class will be August 27, 2015 from 9:00 am to 1:00 pm at the Fayetteville Chamber of Commerce in Fayetteville, AR. The Registration form is on the website. We would be glad to have you join us!

July 2014 vs. July 2015

AALCB

101 E. Capitol
Suite 430
Little Rock, AR 72201

Phone: 501-296-1843
Fax: 501-296-1844
Email: alcb@arkansas.gov

Staff:

Lee Gordon, Executive Director

Diana Piechocki, Chief Investigator

Kelli Black, Executive Assistant

License Type	*2014	*2015
State Registered	164	147
State Licensed	53	45
Certified Residential	356	359
Certified General	469	366
Total: <small>*does not include temporary</small>	1042	917

Currently 23 appraisers (10 Certified Residential, 9 Certified General and 4 State Licensed) have chosen to be on Inactive Status

Board Members

Drew Vance, Chairman
Pete Prutzman, Vice-Chair
Thad Eckolls
Tom Ferstl
Brian Hester
Cary Matthews
Alex McIntosh
Scott McKennon
Shannon Mueller

Bonus feature in this edition of *The Appraiser*

Dear Appraisers,

In this issue of *The Appraiser*, you will find a bonus feature. It is a longer (4-page) article which we think will be useful to many of you. We typically do not include items of this length, but this is a special case.

The article, entitled “Site Valuation,” was originally published in the May 2015 issue of the Oklahoma Real Estate Appraiser newsletter. It was written by Robert Liebel, an Oklahoma certified residential appraiser and member of the Oklahoma Board’s Standards and Disciplinary Procedures Committee. More information about Mr. Liebel can be found at the end of the article.

After reading Mr. Liebel’s article and being impressed by its clarity and detail, I forwarded it to Diana Piechocki, our Chief Investigator. She had a similar positive response to the article. We agreed that it was worth sharing with Arkansas appraisers. We asked for and received permission from Mr. Liebel (via the Oklahoma Appraiser Board) to reprint his article.

While the article is written primarily with residential appraisers in mind, the general themes within it seem pertinent to all appraisers. Diana and I hope you find the article useful.

Lee Gordon, Executive Director

SITE VALUATION

by Robert Liebel,

Reprinted with permission from the Oklahoma Real Estate Appraiser Board newsletter, May 2015

The focus of this article is to outline certain pitfalls observed during the review process on residential appraisals utilizing the FNMA form 1004 and hopefully shed some light on the proper methods of site valuation within the context of that form. Over the course of numerous reviews both private and in conjunction with appointment to the Oklahoma Board's Probable Cause Committee ("PCC"), a pattern exists among almost all residential appraisals reviewed.

The purpose of this article is not to determine if the cost approach and one of its components, site value, is required on any residential appraisal. FNMA clearly states on the form that the cost approach is not required. The use of the cost approach is ultimately the appraiser's decision within the particular scope of work. However, if the appraiser chooses to perform a cost approach, proper site valuation is required.

Standards Rule 1-4

"In developing a real property appraisal, an appraiser must collect, verify, and analyze all information necessary for credible assignment results."

(b) When a cost approach is necessary for credible assignment results, an appraiser must:

(i) "Develop an opinion of site value by an appropriate method or technique."

The purpose of this article is to provide some guidance as to what is considered "not acceptable" under the Uniform Standards of Professional Appraisal Practice, and by extension, what are approved methods of site valuation.

The cost approach section of the FNMA form regarding site value provides the following:

"Support for the opinion of site value (**summary of comparable land sales or other methods for estimating site value**)" [emphasis added]

The following are a just a few of the examples actually found on residential appraisals reviewed by the PCC where no evidence exists in the work file that any research was performed in support of a site value:

"Courthouse records"

"Market Analysis"

"Site value was established from the extraction method"

"Appraisers expertise and experience as well as local agents and contractors"

"Site value is based on actual closed sales of vacant sites with like size, function, and access"

"Site value was determined from the extraction method and/or paired sales analysis"

"Site value is based on actual closed sales of vacant sites with like size, function and access. The allocation method is also used especially in built up areas where site sales are not available."

"The lot value was determined using the allocation method"

These are just a few of the numerous comments provided on the 1004 form in support of the appraisers opinion of site value. When these files were reviewed, a common thread appeared. That pattern or common thread among all of the above comments is that none had written evidence of any research on site sales nor notes or calculations for the extraction or allocation method contained within the work file. Simply put, none of the appraisals “developed an opinion of site value by an appropriate method or technique” as required by Standards Rule 1-4 (B) (i).

Remember, FNMA clearly states on the 1004 form “(summary of comparable land sales or other methods for estimating site value).”

A closer look at a few of the comments above, provided in support of site value, reveals the following:

1. “Courthouse Records” does not support anything in regard to site value on an appraisal. The County Assessor and County Clerk are the two primary entities within that “Courthouse” building that are relevant to an appraiser’s research. Simply stating “Courthouse Records” is misleading especially where there is no data in the appraisal file of any such research. “Courthouse Records” is not an appropriate method or technique for site valuation as required by Standards Rule 1-4.

2. Simply stating on the appraisal “Market Analysis” or “Site value was established from extraction method” again does not mean anything and lends no credibility to the report where there is no demonstration that such methods were actually performed. These comments do not qualify as an appropriate method or technique as required by Standards Rule 1-4 (b) (i).

According to USPAP, credibility is defined as “worthy of belief”. It comments that “credible assignment results require support, by relevant **evidence and logic**, to the degree necessary for the intended use.”

3. “Appraiser’s expertise and experience as well as local agents and contractors.” One must ask, is that worthy of belief? Again, when the appraiser’s complete work file was reviewed, there was no evidence that independent analysis was utilized to develop the site value which was coincidentally the same value as the County Assessor’s number. At the risk of overdosing on Standard Rule 1-4 the comment, “Appraiser’s expertise and experience” does not qualify as an appropriate method or technique.

4. “Site value is based on actual closed sales of vacant sites with like size, function, and access.” The sales comparison approach is certainly the most preferred method of developing site value. The problem is that, like the others, there was no evidence in the appraiser’s file of any research or analysis of any site sales. This falls back to the credibility issue. Is it worthy of belief? If the appraiser said he did it then why not simply furnish the evidence in the space provided on the form; i.e. provide the actual site sales utilized to develop the opinion of site value. Simply stating that “Site value is based on actual closed sales of vacant sites” is:

- A. Not an appropriate method or technique as required by Standards Rule 1-4 (B) (i).
- B. Not a summary of comparable land sales as required by FNMA on the 1004 form.

The remaining comments outlined above that were provided as support for site value on residential appraisals are varying degrees of attempts to pass the sales comparison approach, market extraction, and allocation methods as the measure by which the site value in the appraisal was developed. The common thread was that none of the work files contained documentation of any research, analysis, or conclusions for support of the site value presented. Remember credibility, is it worthy of belief? None of the above comments directly or adequately address the requirement on the FNMA 1004 form. None provide a summary (as required) of the reasoning or analysis utilized in support of the opinion of site value.

Why is this important? If for no other reason, it is important for your credibility and your appraisal profession's credibility. Now is probably a good time to point out that no appraiser is immune from having a grievance filed against them at the State Appraisal Board. If it happens, why open the door to a possible violation of Standards Rule 1-4 (b) (i) ?

The Appraisal Institute's book, *The Appraisal of Real Estate, 13th Edition* provides the six primary methods of site valuation. Three of those methods deal with capitalization; land residual, ground rent and discounted cash flow analysis. Those three methods of site valuation are generally beyond the scope of site valuation on a residential appraisal report form and will not be considered here. The other three methods are the Sales Comparison Approach, Market Extraction and Allocation. Each is considered an appropriate method or technique as required by Standards Rule 1-4 (b) (i) when correctly developed. These are the three methods that in varying attempts, as illustrated above, are inappropriately and inadequately utilized as support for site value with credibility lacking in each.

The **Sales Comparison Approach** is "the preferred method of land or site valuation and is based on the analysis of historical prices paid for sites similar to the subject by willing buyers and sellers in an open market." In addition to providing support for the subject's site value opinion, important factors affecting residential sites where adjustments can be developed for property differences include site size, front footage, topography, location, easements, etc. These are just a few of the various factors that can be derived from the sales comparison approach in site valuation. I do not know any other way to describe it other than site sales in Oklahoma County are prolific. With the availability of Oklahoma County Assessor's website, site sales are usually easy to find (Cleveland and Canadian County as well). It appears from a variety of the above statements found in appraisals that many appraisers like the Sales Comparison Approach. If you are actually doing what you say you are doing, why not put a couple of site sales in the space on the form where FNMA asks for the summary of comparable land sales. That can only lend credibility to the report.

Market Extraction "is used to estimate land value where there are no other comparable land sales in the subject or competing area." "The methodology requires research of comparable sales of improved properties with locational attributes similar to the subject. An estimate of the depreciated cost of the improvements is deducted from the total sale price of the property to arrive at the land value." This requires an estimate of the cost of the property and the deduction of the appropriate amount of depreciation and site improvements. The remainder is the indicated value of the lot. The limitation here is "that the appraiser must be able to determine the value contribution of the improvements estimated at their depreciated cost." It requires some math and a few calculations. As the purpose of this article is not to provide basic instruction, you are encouraged to review education materials for proper application of this methodology.

Allocation is another method used by appraisers when they need an opinion of land or site value where there are no recent comparable land sales. As indicated in the "Appraisal of Real Estate 13th Edition," the procedure for allocation is "a ratio of site value to property value is extracted from comparable sales in competitive locations and applied to the sale price of the subject property to develop the site value." The allocation method is a ratio technique in which improved property sales and vacant land sales in an area that competes with the subject are researched. A ratio of land value to property value is established and that ratio is applied to the property being appraised to determine the underlying land value of a similar improved site. The limitation here is that "the allocation method does not produce conclusive value indications unless ample sales data is available."

With the availability of online county assessor records there is ample data that can be utilized to develop a site value by the allocation method. Again, you are encouraged to review education materials for proper application of this methodology.

Several of the site value comments outlined above alluded to the allocation method as support for the opinion of site value. Here again, it looks like this method requires a little analysis on the part of the appraiser. In doing so, it would require at the minimum some evidence in the work file of the site sales utilized, and the calculations applied to those sales to develop the ratio to be applied to the property being appraised.

One final comment about the allocation method. It seems some appraisals are estimating the land to total property value ratio by applying the county assessor's opinion of site value to the assessor's opinion of market value or the recorded sale price. The correct procedure for the allocation method requires the use of sale properties to develop the ratio. Using the county assessor's opinion of site value does not qualify as a sale property and any ratio developed from the county assessor's interpretation of value will be skewed.

In conclusion, if you are doing a residential appraisal and performing a cost approach where site value is a component, make an effort to comply with Standards Rule 1-4 as well as the FNMA requirement to "support the opinion of site value (summary of comparable land sales or other methods)." In simple terms, **show your work**. Enhance the credibility of your appraisal report and in doing so, the credibility of your profession.

Robert Liebel has been a Certified Residential Appraiser in Oklahoma since 1991. Robert began appraising in 1983 and received his SRA designation from the Appraisal Institute in 1989. Robert graduated from Central State University and although he never practiced law, he received a Juris Doctorate from Oklahoma City University. For fun, Robert plays guitar in Old Time String Band and is learning to play the clawhammer banjo.