

SKOLNIK REAL ESTATE CONSULTING SERVICES

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A CHECKLIST FOR ATTORNEYS USING VALUATION EXPERTS AND THEIR REPORTS

The checklist on the following pages is an excellent way to begin preparation for litigation in a case involving real estate appraisal expert witnesses. The goal of the checklist is to provide an outline of the appraisal issues legal counsel should consider when selecting an expert, planning the engagement, and reviewing the report for testimony.

Please let us know if you need additional assistance with any real estate consulting, litigation, valuation, or property tax issues.

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VALUATION CHECKLIST FOR APPRAISAL REPORTS

Part 1 – Qualifications and Background of the Appraiser

Expert's Qualifications	✓	Comments
Undergraduate Degree		
Graduate Degree		
MAI Designation from the Appraisal Institute		
Other professional designations (not merely memberships)		
Professional license or certification in this state		
License or certification in other states		
Specialized training in valuation (List courses and organizations that offered them)		
Specialized valuation knowledge of the subject's industry		
Number of prior valuation engagements		
Publications & whether or not peer-reviewed		
Seminars presented (List courses and sponsoring organizations)		
Other _____		

Part 2 – Form & Content of the Report

Form of Report	✓	Comments
Is the report written?		
Was the written report a: Summary of a complete report, or		
Self-Contained report		
Approximate length (pages)		
Does the report appear to be professionally prepared?		
Are there significant editing, misspelling, or language problems in the report?		
Did the appraiser: (these are USPAP issues and must be in every appraisal report)		

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Identify the client and other intended users of the report?		
Identify the intended use of the report?		
Identify the purpose of the assignment?		
Provide an appropriate definition of market value?		
Identify the appropriate ownership interest being appraised? (i.e., fee simple, or fee simple subject to leases, or leased fee, or leasehold – depending on whether the property has tenants or is owner-occupied)		
Identify the effective date of the valuation?		
Identify the characteristics of the property that are relevant to the purpose and intended use of the appraisal?		
Separately identify and properly value any personal property, trade fixtures, or intangible items that are not real property but are included in the appraisal?		
Identify any known easements, restrictions, encumbrances, leases, etc.?		
Identify the scope of work?		
Identify any extraordinary assumptions necessary in the appraisal?		
Identify any hypothetical conditions used in the appraisal?		
Develop a supportable position of Highest and Best Use for the subject property?		
Develop the Sales Comparison Approach, Cost Approach and Income Approach in the valuation of the subject?		
If any of the three approaches were omitted, did the appraiser provide a logical, supportable argument for their exclusion?		

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Part 3 – Analytical Sections of the Appraisal

Sales Comparison Approach	✓	Comments
Are the number of sales used a reflection of a reasonable sampling of the available market data? Or, did the appraiser use just "three sales" without explanation?		
Is there a grid showing the comparative adjustments to the sales?		
Is there a narrative description of the adjustments?		
Are the adjustments logical?		
Are superior conditions in the comparables adjusted <i>downward</i> and inferior conditions <i>upward</i> ? (If not, this is an error.)		
Are any single adjustment or the totality of adjustments of a magnitude that appears unsupportable?		
Other _____		

Cost Approach	✓	Comments
Do the land sales have a similar highest and best use as the subject?		
Are the land sales from a similar geographical area?		
(See issues above in "Sales Comparison Approach" for more issues for the land sales analysis)		
Are the construction cost estimates referenced to a recognized source such as <i>Marshall Valuation Service</i> ?		
Does the appraiser use comparable construction cost examples from the local market to support the published source?		
Does the appraiser use "replacement cost" as his/her basis for valuation? (see below)		
If the appraiser uses "reproduction cost", is it applied incorrectly? (Note: Most appraisers who use the term		

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"reproduction cost" do so incorrectly and should be called on to explain if they understand the difference between reproduction and replacement cost!)		
Is the estimate of depreciation reasonably supported?		
Is the estimate of entrepreneurial profit adequately supported?		
Is the level of detail that the appraiser uses in describing depreciation match the complexity of the assignment?		
Does the appraiser use local examples to support depreciation?		
Is there a separate estimate for physical deterioration, functional obsolescence, and/or external obsolescence?		
Does the appraiser use current appraisal terminology for these terms?		
Other _____		

Income Approach	✓	Comments
Does the appraiser identify any leases currently in place at the subject?		
Is the appraiser's estimate of market rent adequately supported by current data?		
Does the appraiser incorrectly use lease renewals or lease extensions as indications of <i>current</i> market rent?		
Are the comparable leases that the appraiser used truly comparable to the subject? Or, are they just nearby leases?		
Do the comparable leases have the same lease terms as the subject? (i.e., net lease, gross lease, full service, etc.)		
If not, has the appraiser made the appropriate adjustments?		
Is the appraiser's estimate of vacancy and collection losses supported?		
Are the appraiser's estimates of operating expenses appropriately		

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supported?		
Does the appraiser use expense comparables to develop his/her estimates of operating expenses?		
Does the appraiser include inappropriate expense items in his/her estimate, such as book depreciation or interest charges?		
Does the appraiser include or exclude property tax as an expense in a tax assessment appeal appraisal?		
Does the appraiser correctly handle:		
Management fees?		
Franchise fees?		
Reserves for structural replacement?		
One-time expenses for capital items?		
Leasing commissions?		
Tenant improvements?		
Is the appraiser's capitalization rate adequately supported by:		
Comparable sales?		
Mortgage-equity calculations?		
In mortgage-equity calculations, are all the variables adequately estimated, such as interest rates, mortgage constant, and equity dividend rate?		
Published sources?		
In using published sources, has the appraiser adequately considered the difference, if any, between the properties comprising the published survey sample versus the subject property's characteristics (i.e., location, size, condition, age, tenant mix, etc.)		
Does the appraiser correctly apply an effective tax rate to the overall capitalization rate?		
If the appraiser uses a discounted cash flow (DCF) does the appraiser adequately support all his/her assumptions as to inflation, market changes, tenant rollovers, vacancies, length of cash flow, absorption of vacant space, etc.?		

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If not, how does that affect his/her valuation conclusions?		
Is the estimate of discount rate (internal rate of return, or IRR) adequately supported?		
Other _____		

Reconciliation and Correlation	✓	Comments
Are the results from the three approaches to value adequately correlated into one defensible estimate of market value?		
Did the appraiser explain his/her correlation adequately?		
Have any of the three valuation approaches been eliminated? If so, why?		
Did the appraiser place more weight on any one or two valuation approaches? If so, is there adequate explanation as to why?		
Other _____		

Part 4 – Other Considerations

Other Considerations	✓	Comments
Is the appraiser's math correct?		
Who, besides the named appraiser, contributed to the production of the report? Did research assistants or trainee appraisers participate? (This information should be listed in the Certification page(s) of the report.		
Are there errors of omission or commission in the report which materially affect the valuation?		
Are there any environmental factors affecting the property's valuation?		
If so, did the appraiser handle these appropriately?		
Are the graphics (maps, photographs, tables, etc.) useful		

VALUATION CHECKLIST FOR APPRAISAL REPORTS

to the reader understanding the appraiser's report?		
Does the appraisal report appear misleading?		
Other _____		