2015 year-end tax planning for appraisers

What you can do now to save money on your 2016 taxes!!

Editor’s Note: I write this article every December. There are not many changes since December 2014, but it is good as a reminder of what you can do now to save taxes next year. Be sure to check the details in this article and/or discuss the issues with your tax advisor.

The goal is to reduce taxes by deferring (or occasionally, accelerating) income to a year in which you are in a lower tax bracket, take advantage of tax credits and deductible expenses, and when legally allowable, earn income tax-free (such as retirement accounts).

There is lots of complicated advice available on reducing taxes, but most does not apply to appraisal businesses. Travel and entertainment for marketing purposes is one example.

Your greatest savings in taxes is usually by using a SEP-IRA or Solo 401-k retirement account. You can deduct up to $53,000 in income or 25% of income whichever is less (generally check with tax advisor). Taxes will be paid when you withdraw the money. No penalties are due for withdrawals after age 59 ½. I saved $5,000 on my taxes last year.

Expense deductions are good, but you have to spend money to get them.

There are other options, such as Roth IRA. You can also save taxes by setting up an S-Corp (pay yourself a salary). They are more complicated to set up and I don’t include them in this "last minute" tax tips article. I also assume you are using a tax professional who will be sure you take deductions such as up to 50% of your self employment (combined Social Security and Medicare) contributions.

Ways to defer income
If you are self-employed and on the cash basis of accounting, bill your clients near year end if you can. They will probably pay you next year.

If you work for AMCs that require a fast turnaround and send your invoice with the appraisal and pay quickly, this may not be an option.

Of course, although you have deferred taxable income, you have also deferred receiving taxable cash until 2016, so your income will be higher in 2016.

Ways to increase deductible expenses by timing payments
Pay as many bills as you can by the end of the year, such as property taxes, software maintenance agreements, etc.

Purchase equipment and vehicles by the end of the year. For 2015, there is a maximum $25,000 deduction for new and used equipment, as well as off-the-shelf software. This limit is only good for 2015, and the equipment must be financed/purchased and put into service by the end of the day, 12/31/2015.

Consider making charitable donations before the end of the year.

Credit card payments for business or charitable donations made by December 31 are deductible. Don’t forget that your Appraisal Today renewal and other subscriptions are tax deductible.

Take advantage of all business deductions
Review your records and cancelled checks carefully to take advantage of...
all business deductions. Be sure your deductions are adequately supported by written records that indicate time, amount and business purpose.

More ideas for reducing 2015 personal taxes
If your personal itemized deductions are close to the standard deduction, consider "bunching" your expenses every other year.

Pay your fourth quarter state estimated tax payment in December instead of January every other year. Pay your January mortgage payment on December 31 every other year. Just be sure the bank reflects this extra payment in the annual mortgage interest paid form so that your deduction matches the information the bank sends the IRS. Pay your property taxes early.

Charitable contributions
Clean out your closets every other year and contribute your unwanted items to a charity for a deduction.

Be sure to get a receipt for all donations and contributions, regardless of the amount. Photos can also work well for verifying your donations.

You can contribute by using a credit card by 12/31/15. Then pay it off when you receive your credit card statement.

Medical expenses
Medical expenses are deductible only to the extent they exceed 10% of Adjusted Gross Income (AGI). If you are 65 or older, the threshold remains at 7.5%.

For the self-employed, 100% of health insurance premiums are deductible to reduce AGI rather than your personal itemized deductions. Be sure to keep a log of your mileage. If necessary, you can estimate it by using your calendar for days of appraisals, medical appointments, and charitable activities.

I doubt if appraiser business mileage gets questioned by the IRS as much as we work in the field.

Education expenses
For appraisers, CE costs are another deduction, including travel expenses. Be sure to keep complete records, especially if going to a conference or other CE where you are staying overnight. Don't forget meals. If you don't keep good record of your meals you can use a standard deduction. If you are driving, be sure to record it in your mileage log.

SEP-IRA and Solo 401k contributions are not taxable until withdrawn and can save big money on taxes
For 2015, if you are making money, consider contributing to a SEP-IRA or Solo 401k.

I have put the maximum I am allowed into my SEP-IRA for the past 4 years, about $20,000 per year. Since I am over the age of 59 ½ I can withdraw money at any time without paying a penalty.

This year I saved $7,000 in taxes by contributing the maximum allowed for my income.

If you are younger, at least you are putting something into your retirement account that saves you taxes.

Like most appraisers, my income can vary quite a bit from year to year. This is a way for me to put aside money in the high years and withdraw it in the low years without penalty, if you are 59 ½ years or older.

For the 2015 tax year, the IRS has raised the contribution limit to $55,000, or twenty-five percent of the employee's salary or self employed net income, whichever is the smaller. These limits are subject to future cost-of-living adjustments as the years go by.

For 2015 taxes, IRA contributions must be made by April 15, 2016. SEP contributions can be made as late as October 15, 2016, if you request an extension of time to file your income tax return. You can pay your taxes on April 15 and wait until October 15 to file your return, so you don't accrue much, if any, in penalties and interest. Or, wait until then to pay a few thousand dollars in remaining tax due.

How to set up a SEP-IRA by December 31, 2015
It is very easy to set up by using a company such as Vanguard. Just call on the phone. I use Vanguard because their cost is low and they are very easy to work with, but you can use any investment service you want.

Set up a Solo 401k plan by year end
These plans must be established by December 31st in order to be effective for a given tax year.

The one-participant 401(k) plan isn't a new type of 401(k) plan. It's a traditional 401(k) plan covering a business owner with no employees, or that person and his or her spouse. These plans have the same rules and requirements as any other 401(k) plan.

Contribution limits in a one-participant 401(k) plan:
The business owner wears two hats in a 401(k) plan: employee and employer. Contributions can be made to the plan in both capacities. The owner can contribute both:

Elective deferrals up to 100% of compensation ("earned income" in the case of a self-employed individ-
Who should do your taxes?

Employer nonelective contributions up to: 25% of compensation as defined by the plan, or for self-employed individuals.

Total contributions to a participant's account, not counting catch-up contributions for those age 50 and over, cannot exceed $53,000 for 2015 and 2016.

FYI, these plans are more complicated to set up than a SEP IRA.

**SEP IRA vs. Solo 401k**

For a good discussion on the pluses and minuses for self employed persons with no employees to go www.sepira.com/sep-ira-vs-individual-401k.html.

What if you have employees?

You will need to look at other types of plans. I had one in the past. They require employee contributions.

Who should do your taxes?

I strongly recommend using an enrolled agent or a CPA. Why? They are tax experts and, also very important, they can represent you if you have an IRS audit. They can calculate such items as Alternative Minimum Tax, depreciation, and advise you on deductions.

I always fill out a form that I am sent by my tax provider. Don't show up with a box of receipts unless you want to pay a very big fee. If you don't use Quicken or Quickbooks, make a commitment to do it ASAP. Don't wait until just before April 15 to start using the software.

Once, I represented myself at an IRS tax hearing about my husband's commercial fishing business. It did not go well as I had no experience or training in what to do at the hearing.

Keep business and personal expenses separate

Of course, you should have separate business checking and credit cards. If you don't, do it now and try to get your 2015 personal vs. business expenses straightened out ASAP.

Most of us occasionally pay business expenses in cash or with personal credit cards or checks. Be sure to check your records or box of receipts. I try to do as few cash payments as possible as they are a hassle to keep track of.

The IRS scrutinizes personal expenses that may have been claimed as a business expense, such as the use of a business vehicle for personal use. Be diligent about keeping good records.

Home office deduction

If you rent your home, take the deduction. If you own your home, there are some issues, primarily recapture of depreciation when you sell your home.

An appraiser can deduct home office expenses as long as the office is used regularly and exclusively to perform substantial administrative or management functions and there is no fixed space available at work locations. Be aware that if you have a computer in your home office, it also must be used exclusively for business in order for the home office to be deducted.

If you work out of your home and don't have a separate office location, you should be able to claim a home office deduction.

In the past, some people did not claim it because they thought it was a "red flag". But if the only location you run your business is a home office, there should not be any problems.

I have both a home office and another office in an office building for over 20 years. I do not claim my home office. I sometimes work at home, but my business is run out of my separate office.

When I first started my business, I ran it out of a detached rear building behind the home I rented. If I had owned the property there would be tax consequences if I sold the property and I may not have claimed the deduction.

Some of the expenses you can deduct include a portion of your real estate taxes, deductible mortgage interest, rent, utilities, insurance, depreciation, painting and repairs. The total amount you can deduct depends on the percentage of your home used for business.

The minus of the home office deduction is recapture of depreciation if you sell your home. In other words, you have to pay back the deductions you received during the years.

But, if it's in the guest house in your backyard, the portion of your sale proceeds attributable to that separate structure would be taxable, even though the building was part of your overall home sale. And you still must pay tax on the gain equal to the depreciation on the home office.

If you're a tenant, it's easy, with no worries. Just be sure you keep good records. There are some somewhat controversial topics such as using part of a room for business file storage.

For more information, read "Should you take a home office deduction?" in the March, 2013 issue of Appraisal Today. Send me an email and I will send it to you.

Where to get more information

Google "year end tax tips self employed". Most of the tips for appraisers are in this article. But, sometimes it is a good idea to read how someone else explains it. And, there may be tips not covered in this article applicable to your personal tax situation.
Don't use only automated valuation (weighted average) from your appraisal forms software without additional reconciliation analysis

Editor's note: a la mode and Bradford's Clickforms both include this automated valuation method in their appraisal software on the same line as gross/net adjustments. SFREP and ACI do not use it. Doug Smith uses a la mode so he was able to write about it. Bradford's Clickforms also uses it. Per Jeff Bradford, he developed this weighted average of gross adjustments 13-14 years ago. I had never looked at this calculation before, so I had never used it. The calculation does not appear on the printed forms.

"An AVM is a computer software program that analyzes data using an automated process. For example, AVMs may use regression, adaptive estimation, neural network, expert reasoning, and artificial intelligence programs."

Having completed 150 desk reviews of appraisal assignments around Montana for USPAP compliance, I have gained some insight into the general competency of at least one segment of the population of appraisers who accept work from Appraisal Management Companies. Unfortunately, I cannot confirm good news on this for fully 25% of the reviews were found to have serious USPAP compliance issues. There were some areas of the state where failure rates were 85%.

I was very concerned to find that in almost every area of Montana, a fair number of appraisers are completely relying on the a la mode Appraisal Software AVM that purports to prepare a weighted average of the comparable sales found in the report.

Appraisers are adopting, without any type of reconciliation the results of this AVM, and, in some cases, including both sales and listings within the sample.

The a la mode company never intended that this tool be adopted by appraisers for the final determination of value. It claims that the result is a "suggested" value.

I encourage any appraiser now using this AVM or is contemplating using this AVM to read Advisory Opinion 18(AO-18) "Use of an Automated Valuation Model (AVM)" and understand this section of USPAP completely.

The most relevant portion of AO-18 is: "The output of an AV is not, by itself, an appraisal. An AVM's output may become a basis for appraisal or appraisal review if the appraiser believes the output to be credible for use in a specific assignment. An appraiser can use an AVM as a tool in the development of an appraisal or appraisal review. However, the appropriate use of an AVM is like any tool, dependent on the skill of the user and the tool's suitability to the task at hand."

In order to review reports using the a la mode AVM, I conducted an investigation as to how it worked. I was very surprised to find that the formula used was both bad math and worst statistics. I am guessing that no one using this model has taken the time to fully investigate the way the "weighted average" is calculated.

The reports in question use a weighting system that is part of the a la mode software system. The following is the means to calculate a given comparable weight (Comp Y).

To calculate a given comparable weight, the program uses the following formula where Y represents a unique comparable (i.e. Comp 1, Comp 2, Comp 3, etc.)

\[
\text{CompY Gross Adj} \% \times 100 = A \\
\text{Total Gross Adj}\% - 100 = B \\
\text{B} = \text{Weight of Comp Y} \\
\text{C} = \text{Total number of Comps} - 1
\]

This weighting system is offered by the appraisal software company as a means of "suggesting" a value. As can be seen in the formula, the algorithm uses percentages to arrive at yet another percentage which is weighted by allocating the distribution by one less than the comparable sales used. The allocation system, in effect, then evens out the distribution and, therefore, the results do not truly represent a weighted average. In this instance, USPAP weighs in with the following:

Standards Rule 1-1(a): An appraiser must be aware of, understand and correctly employ those recognized methods and techniques that are necessary to produce a credible appraisal.

Standard Rule 1-6(b): An appraiser must reconcile the applicability and relevance of the approaches, methods and techniques used to arrive at the value Conclusion(s).

The typical report using the AVM...
explains the weighting system as follows:

"Estimated indicated value is determined by using the Gross Adjustment of sale price for each comparable as a measure of the relative quality of the comp. A lower adjustment indicates a better comp, and vice versa. The ratio of gross dollar adjustment to sale price for each of the comps is used to calculate the weight each comp should have in a weighted average calculation. This weighted average is used as the indicated value of the subject."

As with any method, this technique is not perfect. However, it does do a very good job of giving more weight to the most similar comps while at the same time minimizing values near the extremes of the indicated value range.

In every case, I found the opinion of value in the report was the value determined by the weighted average. Despite the fact that the explanation cited that the sample included only the sales, in some cases, the sample included both the sales and the listings and these listings were included without comment or explanation.

In Montana, where there is likely a wide variance of the elements of comparison among the comparable sales and where appropriate comparable sales require larger than typical adjustments, putting the emphasis on an AVM that emphasizes the least amount of adjustments is singularly illogical. The use of this AVM as the sole means to determine an opinion of value is not appraising.

In most cases, the appraisal report never reconciles the approaches to value and the appraiser never exercises judgment in the reconciliation process giving weight to individual Comparable Sales. The reports would have, in most cases, benefited by a clearer statement within the reconciliation as to why the results of the weighted average analysis were emphasized and a clearer explanation as to how the weighted average was derived and the reason for the emphasis on the level of the gross adjustments rather than other qualitative and quantitative elements of the appraisal analysis.

I recommend that appraisers using the a la mode AVM suspend its use until all the elements of AO-18 are met, and that appraisers relying on this AVM, introduce accepted reconciliation techniques, stop including listings within the sample or explain why listings are appropriate.

Because this tool is based on faulty math and worst statistics, its use should be confined to its original use, merely to determine a "suggested" value not a value on which an appraiser is ready to stake his or her license and credentials.

Authors note for appraisers doing residential review work:

Per USPAP AO-18: "An appraiser may be asked to review an appraisal report that includes an opinion of value based on the output of the AVM; this is an appraisal review assignment under USPAP which must follow the requirements of STANDARD 3. This kind of appraisal review assignment may be accepted if the appraiser performing the review understands how the AVM works and can form an opinion as to the adequacy and relevancy of the data and the appropriateness of the analysis, based on the information provided in the report under review."

A copy of the Excel spreadsheet that calculates the weighted average from the data within the OA report is available by e-mail: hotelman@montana.com.

About the author

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Marketing with holiday gifts and cards.  
An easy and Most Excellent marketing tool!!

Editor’s Note: I write about this every December, and it makes me remember to get some cards at the office supply store!!

There are not many changes since December 2014, but it is good as a reminder of easy ways to say "thank you" for appraisal business, being very helpful on an appraisal, etc.  In the past I used to get many holiday cards from vendors, other appraisers, etc. Sometimes I would get a gift such as a Starbucks gift card. But, this has slowed way down in recent years as a residue of the recession I guess. If you send something, it will be remembered.

Why would you want to send holiday gifts and cards? It is one of the few times in the year that sending something is not unusual. A few appraisal assignments or referrals, or even one, will more than pay for the cost. Send them to current clients, previous clients, new clients, prospective clients, etc.

Don't forget the real estate agents that were willing to spend time to explain their sale and appraisers that helped you on an appraisal.

Appraisers tend to be very weak on all types of marketing, even the easiest, such as sending holiday cards and gifts!

What if you don't have any clients except AMCs?
Say thank you with a card to helpful real estate agents, property managers, appraisers, employees at vendors who have been helpful such as forms software companies, etc.

What about AMCs?
If there is someone who has been helpful, send them a gift card. If you don't have their postal address, send a personal thank you email. I doubt if they will get many from appraisers!!

Don't forget the chief appraiser or appraisal managers. They probably have postal addresses so you can send holiday cards.

When should cards be mailed?
By December 10. Get started now!!

Who to send gifts or cards to
1. Best clients.
2. Second tier clients.
3. The rest of your clients.
4. Referral sources - as many as you can. Other appraisers, real estate agents, accountants, attorneys, your neighbor, etc.
5. Vendors who have been especially helpful.
6. AMC employees who have been helpful.
7. Appraisers and real estate agents who have been helpful with data and/or advice.
8. Good prospects.
9. Instructors and speakers that you liked.
10. Authors of articles that you liked.

What am I doing this year? My best attorney client - flowers for the office. I did it last year and I'm sure they will really appreciate it this year. I'm sending holiday cards with personal notes to many clients, referral sources, appraisers, real estate agents, etc. Starbucks gifts go to many of the appraisers and real estate agents who have helped me this year. Plus, attorney clients who I get work from once or twice a year.

Holiday cards are a good reason to contact clients I have been trying to get for many years. Plus a few vendors who have been very helpful.

Why send holiday cards?
"Unlike the cards we mail to loved ones, greetings we send for business are generally used for two purposes: as a thank-you to individuals at other companies with whom we have an ongoing relationship, or as a means of staying on the radar of an existing, former or prospective client," says manners expert Thomas P. Farley.

What type of holiday printed cards are best?
A "season's greetings" card is usually a better choice than a Christmas card, so you don't offend anyone. I am located in the very diverse San Francisco Bay Area, so I always send neutral holiday cards.

A handwritten address on the envelope is a very good idea.

Always, always include a personal signature and a short handwritten note, if possible.

Be sure to be "generic" in your cards and your message. Don't mention a specific holiday. Humor is risky and not recommended. But, sending a humorous card to someone you know well may work.

Government and institutional employees - be careful
When I was first employed by a county Assessor's office in the mid-1970's, I was told not to accept anything from a taxpayer. If I went to lunch with someone, I was to pay for my own lunch.

Many government agencies have similar policies. Before sending anything other than a holiday card, be sure to check.
Some banks and other institutional clients have strict policies, although few are as strict as government agencies. Check to be sure. Some of my lender clients requested that any gifts be for the entire appraisal department, such as flowers or candy.

**Email "cards"**
Postal mail is best, but it is sometimes hard to get postal addresses. Email addresses can sometimes be difficult to obtain. Send them to people that you have current email addresses for.

When I checked online, many of the e-cards had music, which can be very annoying. Search for Business Seasons Greeting cards.

To get a quick idea of what they look like and how they work, go to www.123greetings.com. You can send yourself a greeting card and see what it looks like. Unfortunately, there are ads in the emails because it is free so I don't recommend actually using this particular service.

Another option, which may be better, is to just send a personal holiday email with maybe a photo of yourself or another photo embedded in the email. And a personal message. We don't get many emails that say Thank You!!

**"Special" one time gifts**
Many businesses send one time gifts, such as home made cookies or candy. Gift certificates are also popular, with an almost endless list of choices, including restaurants, book stores (don't forget the online stores such as amazon.com), car wash services, movie theaters, etc.

A gift basket is another good choice. Go to your local Yellow Pages and look under "gift baskets." To get an idea of the endless varieties of gift baskets, go to your favorite search engine and look for "gift baskets."

"Perennial" flowers such as poinsettias are good. You can also have cut flowers delivered.

**Gifts that last**
One gift I see almost every morning is a coffee cup from a local appraisal firm that I received many years ago.

I used to send out a small desk calendar with my company info to about 100 people. They loved it and called me when they didn't get one.

One year I set up monthly flower deliveries to a lender client that gave me lots of work. It went to the appraisal department, not the chief appraiser.

**Ideas on what to send**
Sending gift cards, such as Starbucks, is a very easy choice.

Most of us select gifts appropriate to the volume of work, how easy the client is to work with, and the likelihood of continued work. For example, a gift basket for your best clients, and a calendar or card for others.

A gift that would appeal specifically to the person is always good. For example, a gift certificate to a popular restaurant for two for someone who likes to eat out, or a gift certificate for a "meal delivery" company for those with children who are too busy to go out for dinner. Or, a box of chocolates for a "choc-o-holic."

A gift that is seen every day, such as a desk calendar, mouse pad, or paper clip dispenser, personalized with your company name works well.

Some other possibilities:
- Home baked cookies, pastries, or candied pecans.
- Gift baskets - food, wine, chocolate, many choices.
- Dom Perignon champagne - for the top clients
- Modest gift at Christmas and a card at Thanksgiving or New Year's
- Baskets from local fruit wholesalers
- "Happy New Year" cards and wine
- Desk nameplates
- Rum soaked holiday cakes - suggested by John A. Shaw
- Starbucks certificates
- Sticky Note Pads (540 Sheet Ones) with your name printed on all 4 sides
- Souvenir Stick Pen ($1.75 Each)
- Massage therapist for an hour to do chair massages one afternoon between Thanksgiving and Christmas (Editor's note: this one is my favorite!)
- Chocolate cheesecakes on Halloween and boxes of chocolates on Valentine's Day a House shaped paper clip holders with your company name & info printed on the roof

**Your employees**
Don't forget your employees - a special holiday lunch and gifts really make a difference. What if your family members are your employees? It makes an even bigger difference!

**Where to get gifts**
For gifts personalized with your name, do them ASAP. Advertising companies are used to last minute requests, but they are all busy before Christmas.

For gifts with your name on them, use an advertising specialties company. Look in your phone book for names, or use the Internet.

**When to send gifts**
There are many times to send gifts. For the traditional holiday gifts, you can send them before Christmas, between Christmas and New Years, and after New Years.

Some like to send at the traditional week before Christmas, others near Thanksgiving, and others early the next year. Your gift stands out more if not sent at the traditional time, but you may prefer the Christmas season.

Be sure to send thank you cards throughout the year, sent out soon after receiving a good referral or data you really needed. This is a "must."
### How to send gifts

Personal delivery by the principal or owner is always best, even for cards. If at all possible, do this for your best clients.

For non-local gifts you can use the U.S. mail or UPS.

### What personal message should you include in your cards?

Remember, this is for business, which is different than sending cards to personal friends and family. Look in the mirror. What type of message do you like to receive?

This depends on how well you know the person. For example, you can mention about a spouse or a hobby.

Don't make it too much of a "sales pitch".

Go to a store and see what is on the cards there. Check out messages online for business card companies.

Don't include a business card.

### Business law and gifts

Bribery is the primary issue from a legal viewpoint. Appraisers seldom give such large gifts, but it has happened. For example, you're bidding on a big appraisal contract and pay for a Hawaii vacation for the person making the decision before you are awarded the contract.

### USPAP and gifts

Some appraisers mistakenly believe that USPAP doesn't allow giving gifts to clients.

USPAP doesn't include much about marketing and gifts.

"The payment of undisclosed fees, commissions, or things of value in connection with the procurement of appraisal, review, or consulting assignments is unethical."  
"Disclosure of fees, commissions, or things of value connected to the procurement of an assignment should appear in the certification of a written report and in any transmittal letter in which conclusions are stated."

(Emphasis added.)

In the real world, fee appraisers are very reluctant to write about payment of fees, commissions, etc. in their appraisal reports. Thus, appraisers try to avoid situations where USPAP would require such disclosure.

Understand that payment of fees, etc. in order to get an assignment is not prohibited by USPAP. It just has to be disclosed.

### USPAP and gifts after getting assignments

Although USPAP doesn't forbid giving current clients "things of value" as a "thank you," it does not address how far you can go (i.e. trip around the world for two). Business law does.

Remember all the stories in the newspapers about business owners being accused of bribery? U.S. law is pretty strict on giving bribes to get work from a current customer or a prospect.

The basic rule is that the gift must be appropriate to the work performed. For example, a client has given you $2,000 in work over the past 12 months. A box of candy, flowers, etc. is certainly appropriate. If a client has given you $150,000 in work, a more expensive gift would be appropriate, say a set of golf clubs.

### Gifts prior to getting an assignment

USPAP (and business law) problems typically involve giving "things of value" in anticipation of getting an assignment.

For example, an appraisal firm conducts a random drawing with prizes. Clients are allowed a certain number of entries based on the number of appraisals ordered within a certain period of time. This "thing of value" must be disclosed as the number of tickets is tied to the amount of work given.

In contrast, if every appraisal ordered contained an entry form for the drawing, it would not have to be disclosed as the entries are given to everyone and not based on how many appraisals were ordered. This is similar to a discount on your fee, say 10% for the next three months. In both cases, it is available to everyone.

### Planning for next year

It may be too late to order personalized gifts, so plan now for next year.

If you want your gifts to have your company name on them (a very good idea), order them now. Traditionally you can order up to 3 weeks before you need them, but suppliers can get back logged at holiday time.

### Where to get more information on gifts

For gifts with your name on them, use an advertising specialties company. Look in your phone book for names, or use the Internet.

Baskets can be ordered from local stores or national companies over the Internet. In the phone book, look under Gift Baskets & Parcels. Sometimes they are available at grocery stores.

Check with local real estate agents and see who they use.

### Where to get more information on cards

Google Holiday Business Cards for vendors, if you want them custom printed or emailed.

For ideas on what type of a message, go to web sites that sell business cards or Office Depot or other local store that sells cards.
I have Google Earth and I know how to use it - comments from an appraisal reviewer

By Rachel Massey, SRA, AI-RRS

Editor's comment: I recently attended an all day CE seminar. One of the sessions was Denis Desaix, speaking on adjustments. The content was similar to his adjustments article in this newsletter. One of his examples was a home backing to a large commercial parking lot. The owner said it was not a problem. But, of course, Denis needed to check it out himself. He used several methods to show that the parking lot did not affect value, plus he looked 5-6 historic Google Earth images showing few cars in the parking lot. Why did he do all this? Most people, including reviewers, looking at a big parking lot would say that it affects value. Denis anticipated, and answered, this question in his appraisal report.

As a reviewer, Google Earth is one of the first tools I reach for when I look up the property of the appraisal I am reviewing. I assume all reviewers do. We use it to make sure the property isn't adjacent to a structure such as an 8-lane freeway, a massive shopping mall or a toxic waste facility.

Hopefully the appraisal that has one of these externalities addresses it. Sometimes the appraisals include great details to discuss other nearby structures and any effect they have on marketability and value. Sometimes there is just a sentence or two.

Yesterday I pulled up Google Earth on the house that was the subject of an appraisal I was reviewing and it backed up to a bunch of buildings. Looked possibly to be a school, but the street view maps took me around the side and to the entrance of what turned out to be a large condominium complex. Absolutely no big deal, but there wasn't one single word about it in the appraisal.

I asked a group of appraisers whether they would make a comment if their subject property backed up to a condominium complex, and the responses ran the gamut from "of course", to "no way, it is already covered in the neighborhood check boxes".

While the check boxes for the neighborhood include multi-family homes, they do not include condominiums, and in this instance, there was nothing in the appraisal even hinting that there was a mixture of single-unit uses in the area. This property didn't raise a red-flag as would very close proximity to a freeway, commercial shopping center or toxic waste facility, but it did raise a question and warranted a bit more research.

This is fine as it part of my job, but as someone who actually reads the reports, I was confused as to why it wasn't even mentioned. I was even more confused by why so many appraisers say that it is not worth mentioning.

Maybe it is being old fashioned, but I grew up with the understanding that an appraiser was the eyes and the ears of the client, and that anything that would likely raise a question for the client should be addressed. Of course the freeway, mall and toxic waste facility are givens, but wouldn't anything that was literally in the backyard also be something that would get questioned?

How many minutes does it take to write a few sentences about a condominium complex? It could be as simple as saying: "The subject backs up to the XYZ condominium complex and has a seasonal view of some of these buildings. There is no negative effect on marketability or value of the subject property related to its location adjacent to this residential use".

While it is easy to overlook potential concerns due to the amount of reporting we have to do, (and remember, there is no such thing as a perfect appraisal), stepping into the mind of the client and asking yourself: "what would the client be concerned about" is a very useful exercise.

While the client may not care about the house backing to a condominium complex because it is a residential use like the subject, they may care about it backing to the complex if, for some reason, it does affect marketability and/or value. It is up to us, as appraisers, to report and analyze what it is we see. Although we can never catch every little thing, our value is partly measured by our ability to communicate and to analyze these nuances.

Remember, reviewers have Google Earth and other effective, time-saving tools at their fingertips. They can be really helpful in our industry.

About the author
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Supporting Adjustments: Let's be Reasonable! Why CU and AVMs cannot replace appraisers

By Denis DeSaix, SRA

The spotlight is on residential-mortgage appraisals with a renewed emphasis on how our adjustments in the sales comparison approach are derived and supported. Many appraisal-form software providers are offering additional tools to assist the appraiser. These are mainly regression and statistical programs designed to analyze data and provide market-supported adjustments for various elements of comparison.

Some of these programs include graphs and summary tables. They look impressive and can be helpful to the appraiser in the analysis process. And, of course, there is the standard "Paired Sales Analysis" which appraisers have relied on since before my time. With all the scrutiny and rush for a mathematical proof of every adjustment, appraisers and our mortgage-lending clients risk losing sight of the big picture when it comes to adjustments:

• The selected adjustment factor is best evaluated based on its reasonableness. The terms "accurate" and "precise" when applied to evaluating adjustments is inappropriate.

• The appraiser's ability to evaluate the data and use his or her professional judgment in determining what is reasonable and what is not has no substitute. Adjustment-analysis programs are simply tools; they are not substitutes for a competent appraiser's judgment in evaluating and determining what is reasonable in a specific market for a specific assignment.

However, appraisers must take their fair share of the responsibility that has driven the industry to its current state of adjustment-support fixation. If we expect our clients to rely on our professional judgments and conclusions, then we have to provide them with sufficient information so they can evaluate the reasonableness of our adjustments. Residential-mortgage appraisal reports (not all, but enough) have been deficient in including meaningful commentary and analysis that supports the adjustments applied in the appraisal. Therefore:

Appraisers must do a better job in communicating the analysis and support for the adjustments made in the sales comparison grid. Without providing meaningful discussion, we risk intended users not understanding what we did and why we did it. When intended users don't understand what we do, the usual outcomes are (a) a requirement to explain what we did and/or (b) a conclusion that we didn't do what we should have done. The first creates additional work for us and the second creates quality-concerns about our appraisals.

What Is Reasonable?

The residential real estate market is imperfect. No two houses are alike and the conditions and circumstances surrounding a particular buyer and seller are usually different. Even model-match homes selling in the same market-condition environment can sell at different prices. While we are required to conclude to a point-value ("most probable price") in our appraisals, the market typically transacts within a range. It should come as no surprise that since the homes we are evaluating trade at different prices within a range, adjustments that we attempt to extract from sales would fall within a range as well.

Consider two sets of paired sales and the element analyzed is site-size adjustments. Comparing Sale #1 to #2 might indicate a $5/sf adjustment. Comparing #1 to #3 might indicate a $10/sf adjustment. Finally, comparing #2 to #3 might indicate a $12/sf adjustment. Using this simple example, the lot size adjustment has a range of $5/sf to $12/sf. $12/sf is 140% more than $5/sf.

When evaluating this, it could be a mistake to presume that because of the spread, the analysis is incorrect. For this example, I am assuming that the analysis is correctly completed and the differences reflect what actually exists. The spread in the range is not a result of incorrect analysis, but is the result of analyzing data in an imperfect market. There are pieces missing from the picture; pieces that we do not have. Based on the data we do have, we see that the market indicates site-size differences have a value impact anywhere from $5 to $12/sf. It is reasonable to conclude that a site adjustment is warranted and the adjusted amount falls within the indicated range.

Can the adjustment be refined further? Of course, that is where the appraiser's judgment comes into play. When the appraiser applies the adjustment to the comparables in the grid, it may be apparent that an adjustment at the lower end (say, $5) brings the adjusted sale prices to a tighter range vs. applying a $10 or $12/sf adjustment.

This "testing the adjustment" is sensitivity analysis. The appraiser tests which adjustment best accounts for value differences between the sales, with the adjustment that narrows the range being the adjustment that best accounts for the differences. The selection of that specific adjustment is the appraiser's judgment at work.
Emphasis on supporting adjustments 1st reason - data is available to the appraiser

The additional emphasis on supporting adjustments is appropriate for two reasons: The first is that in many markets (and in almost all urban and suburban markets) the ability to gather large datasets is within the reach of every appraiser. Most MLS and other data systems allow for a user-defined geographic area search; this can be a radius search or a more refined area search where the appraiser maps out the competitive market area.

All kinds of physical characteristics, including GLA, lot size, bed/bath count, pools, garage count, etc., can be used as search criteria. The speed at which we collect the data is usually limited by the speed of our internet connection. Data can easily be downloaded into a spreadsheet format that allows us to analyze it ourselves, or can be analyzed by one of the many analysis tools available on the market. While the data has always been there, the ability to collect and organize it into meaningful datasets has never been easier. The quantity of data available to the typical residential appraiser has not escaped our clients notice, and they expect our analysis to consider and sometimes include more than just the 3 to 5 comps used in the grid.

This is one of the primary objectives of the 1004MC form: To collect and present the most similar and competitive sales from within our defined neighborhoods so trends and ranges can be identified and considered. Most of us operate in a data rich environment.

Emphasis on supporting adjustments 2nd reason - little room for information in appraisal form reports

The second reason is the amount, or lack of, meaningful information contained in the appraisal report itself. When I was first trained as a residential appraiser in the early 90s, I was told to limit my analysis to what would fit within the pre-printed form's space. I was told not to use the addendum because "clients don't want to read more than what's on the form itself." Not knowing any better, I did what I was told. I wasn't the only appraiser trained like this and this training was not unique to the beginning of licensing.

Ironically, as our ability (through technology) to provide more communication in the report grew, the movement within a large segment of the residential-mortgage appraisal profession was to keep it to a minimum. Because of that desire, appraisal reports many times had no explanation other than a boilerplate statement of how an adjustment was derived.

In the reports I review, it is still more common than not for reports to "state" what the adjustment amount is rather than to demonstrate how it was selected as the adjustment-factor. This lack of support is especially prevalent in the cost approach in regard to support for a site value. "Site value by abstraction" may describe the process, but it doesn't support the conclusion. Data supports conclusions and that is what has been missing from the majority of reports.

The current clamor over more analysis is a result of the ability to gather and analyze larger data sets and the reality that in general, appraisal reports have failed to provide sufficient/meaningful discussion of the adjustment process.

Appraisers provide critical thinking analysis

When the pendulum swings, it tends to over-compensate, and that is the current environment we are in. However, in addressing this swing, we appraisers must be clear that it is our critical thinking-analysis… our "appraiser judgment"… which differentiates our ability to analyze and make conclusions that are reasonable and credible vs. a computer program's calculation-result.

Appraisers and users of our mortgage-finance appraisals are moving away from the concept of "reasonableness". Real estate and the residential real estate market in particular are imperfect. No two houses are alike and the conditions and circumstances surrounding a particular buyer and seller are usually different. Even model-match homes selling in the same market-condition environment can sell at different prices. While we are required to conclude to a point-value ("most probable") in our appraisals, the market typically transacts within a range. This is one reason why there is a variance between list and sale price.

What should we do?

Here are some suggestions that can improve our ability to communicate our analysis and conclusions:

• Clients expect X, and if they don't get X, then they expect Y

Our clients expect to see certain items adjusted in the grid. Sometimes these expectations are reasonable and sometimes they are just legacy-expectations (everyone else does it, and it has always been done like that).

We should know what the expectations are (within reason). If we decide those expected adjustments are not necessary, then the client expects to be told why. Address the client's expectations with some discussion of why an adjustment was or wasn't made or why the amount adjusted may appear high or low. Provide the logic/rationale of the decision.

Explain your appraiser judgment, and why you did what you did.

• Not every difference needs an adjustment

Identify the significant components of value and focus on analyzing their impact. The technical term for what we adjust for in the grid is elements of comparison.

The typical buyer for a house cares about house size, condition/upgrades, location-influences, and sometimes...
site-area differences. In my practice, I try to focus on the significant elements that affect value. Those are the items that, if I get right, I'm confident that my value conclusion will be reasonable and credible.

**Don't sweat the small stuff**

Ask yourself the question for your market, "Does a buyer really care about a fireplace, and if so, can I reasonably estimate its contributory value?" Does the market react to smaller differences in lot size? Some of us may have been trained that such adjustments are necessary. We need to break-out of this mindset and consider focusing on adjustments for those items that make a difference.

**Explain why there is no adjustment if you think someone else would ask**

This goes to client's expectations. Sometimes I spend more time explaining why an adjustment is not applied than I do discussing the analysis for an adjustment I did apply.

**There are two types of adjustments: Quantitative and Qualitative**

A quantitative adjustment is a specific adjustment in the grid. Sometimes there may be an element of a property where, in the appraiser’s opinion, it adds appeal but there just isn't enough data to extract an adjustment. In other words, it cannot be quantified.

In those cases, we can still adjust for this difference qualitatively in our final value reconciliation.

Assume a property has a special feature (superior rear yard amenity like a custom built-in BBQ/entertainment area) and it is superior to any other sales that were researched. While one could use depreciated cost as a basis for an adjustment, there is another way.

When reconciling the final point value, assume the adjusted sale prices of the comparables range from $500k to $525k, and except for the yard amenity, the best comparables indicate a value of $510k. In this case, it would be reasonable to then consider the yard amenity and factor that into the final point-value conclusion:

"... most consideration given to Comparables #1 and #3 due similar GLA and condition; these comparables indicate a value of $510k. I then considered the subject's superior yard amenity which is a positive appeal item, and concluded my opinion of market value at $520k."

This approach is reasonable, and the client (and borrower/buyer) understands that the positive amenity was considered and affected the appraised value.

**Paired sales is not the end-all of adjustments**

Most of us understand how to do paired sales analysis. The strength of that analysis is that it is demonstrable. The weakness is that if one does more than a single-set of paring, the results are usually in a range (which, I argue is not a weakness of the analysis but is a fact of an imperfect market).

Regression analysis uses a mathematical model to determine, based on a larger dataset, what the indicated adjustment should be.

However, trend analysis (without the regression calculation) can demonstrate a trend in a direction for market-condition adjustments which most of us can estimate using what we observe in the chart.

Comparing two sets of data using trend analysis can indicate if there is a value difference for a particular element. Graphing homes with
pools vs. homes without pools may show a relative value difference for a pool.

Again, appraisers can use the observed difference in the chart to conclude a reasonable and market-supported adjustment:

"I've trended homes with and without pools. The value difference in the chart is approximately $10k to $20k; I've selected $15k for the pool adjustment in the grid."

This analysis is very reasonable and credible.

**Market participant interviews add credibility to the adjustment analysis**

In my opinion, many reports do a less than adequate job in speaking to the agents (market participants) that were participants in the sale of the comparable. Speaking to agents/brokers is an excellent source of information regarding how or if a condition affected value. Sometimes the agent won't be able to give a specific amount: that is fine and to be expected. But even their indication of a positive, negative or neutral value influence can help us refine and conclude a credible adjustment.

This is especially true in the case where others might assume something has value and it doesn't.

Photovoltaic (PV) solar systems exist in my markets. In some of them (think Silicon Valley), there is a positive market reaction to that feature. In others, there is no market reaction. In interviewing agents, I can find out if the system added value in their transaction or not. Including direct market-participant feedback in the report can provide powerful credibility to the appraiser's adjustment process.

**Show your work**

If an appraiser is taking the time to analyze an element of comparison, then why not include that analysis in the report? This is what our clients expect and this is what we should be doing.

Now, for a fact, I don't put every market-extracted analysis in my reports. I do put the big-ticket items or those things that I think need to be communicated. I analyze GLA for every assignment where an adjustment is necessary. I put that analysis into the report to support my adjustment. I will also include support for location adjustments, lot size adjustments, and other items.

I've done the research for the significant adjustments I've applied so I provide that to my client. It has been my experience that when I provide support for the large or unusual adjustments, the client is satisfied. When I don't supply that support, the client has questions. I give them what they expect, or explain why they didn't get it ("I know you expected X but you are not getting it, so I'm giving you Y instead").

**Graphing/visuals vs. narrative**

Some appraisers are very comfortable with including tables, graphs, and charts in their reports to show their analyses. The advantage of having a visual is that a picture is worth 1,000 words. However, some appraisers are more comfortable with narrating the analysis.

In my opinion, either approach is appropriate (before the days of cut-and-paste, everything was narrated), but I think it is safe to say that the industry expectation is moving toward graphical displays and away from 100% narrative. Regardless of which style one uses, as long as the essence of the analysis is appropriately communicated, it should be acceptable.

**Do not hesitate to reinforce the reasonability of your adjustment**

If I had to choose one point for everyone to take away from this article, it would be this:

**Precision may not be attainable, but reasonableness is attainable**

The data is fuzzy; we do not know everything, so the adjustments are not going to be precise. However, the data is typically of sufficient quality that it will provide a reasonable, but imprecise indication of the market reaction.

The analysis-process gives us an indication, but it is the appraiser's judgment that refines that into a specific adjustment (or, determines that it cannot be refined and considers it qualitatively).

Our objective cannot be precision: a mathematical equation might be precise in its result; adjustments are not a result of a mathematical equation. Our objective is reasonable and credible. I'll use the tools available to analyze the data, but I won't use the tools to select my adjustments; that is where my judgment comes in. And, while I might select the same adjustment that the tool indicates, I'm not defaulting to it, but rather I'm judging its reasonableness and concluding its indication best explains what I'm trying to analyze.
Sample discussion of an adjustment
In my reports, I will sometimes add this to my discussion of a particular adjustment:

I’ve analyzed X using trend analysis and have interviewed market participants (see adjustment analysis exhibit). The data indicates that an adjustment between $25k and $40k is supported. I've refined this adjustment to $35k and have applied it in the grid: this is reasonable and consistent with the market data.

This statement reflects the following to my client:
1. I’ve done the analysis, and I'm showing you the work.
2. Not only did I analyze the historical data, but I also spoke to market participants.
3. Based on the above, the component I'm adjusting is valued between $25k and $40k; that is as close as I can get in this imperfect market.
4. Based on my judgment, the best adjustment to apply is $35k and that is what I did.
5. You might have picked $25k or you might have picked $40k, but I picked $35k. That's my choice based on my judgment, and my decision is reasonable.

Appraising Residential Properties book - "must have" for residential appraisers
The Appraisal Institute's Appraising Residential Properties (4th Ed.) should be a must-have for every residential appraiser's library. In it, it makes the following comment about paired data (paired sales) analysis, but this comment rings true for any kind of adjustment-analysis:

"This brief discussion of paired data analysis may seem to suggest that identifying the effects of property differences from market data is a straightforward procedure that can produce accurate, complete mathematical results in all appraisals. Such an impression would be misleading. Appraisers develop an opinion of market value by applying their judgment to the analysis and interpretation of data. Paired data analysis is a tool that an appraiser can apply to market data in some circumstances. When used in conjunction with other analytical tools, this type of analysis supports and guides the appraiser's judgment, but does not take its place." (My bold for emphasis)

About the Author
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