

# APPRAISAL AND YOU: STAYING SAFE WITH THE REA



*Presented by Graham Crews*

**REINZ** | REAL ESTATE  
INSTITUTE OF  
NEW ZEALAND



## Updated Judicial Decisions

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- appraisals – once again the Tribunal has issued firm guidelines on what constitutes an appraisal which meets the requirements of Rule 10.2.

***"an appraisal needs to do more than simply show a prospective client comparable properties and sales figures and must inform the prospective client why the properties have been selected and how that information translates to the appraised price the licensee has arrived at for the property.....we note that the xxxxxx appraisal form does not provide for any explanation as to how properties have been selected for comparison or how that information translates into the appraisal price arrived at"*** [2017] NZREADT 6.

**<http://www.nzlii.org/nz/cases/NZREADT/2017/6.html>**  
**"misconduct" finding – seriously incompetent**





# The Real Estate Agents Authority – Appraisal and Appraisal Training

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- **a misinterpretation has arisen in the industry as to what constitutes an appraisal**
- **the misinterpretation appears to relate to a commonly held perception that we should “leave pricing to the market” or “bidders decide the price”**
- **of course, it is the market that decides the price but we are required to provide price guidance to our client which is useful to them in making decisions about pricing expectations**
- **in providing that information we must ensure we are not in conflict with compliance requirements as prescribed by the Rules**
- **my role today is to seek to confirm that the company is in “synch” with the Rules whilst ensuring the on-going success of your marketing programmes, including auctions**

# Rules Extracts from The Code of Conduct

- **10.2 An appraisal of land or a business must –**
  - (a) be provided in writing to a client by a licensee; and**
  - (b) realistically reflect current market conditions; and**
  - (c) be supported by comparable information on sales of similar land in similar locations or businesses**
  
- **10.3 Where no direct comparable or semi-comparable sales data exists, a licensee must explain this, in writing, to a client**

Real Estate  
Agents Authority

Real Estate Agents Act  
(Professional Conduct  
and Client Care)  
Rules 2012



# Rules Extracts from The Code of Conduct

- you must still provide an appraisal, but Rule 10.3 states that you must explain to the client in writing that no comparable or semi-comparable sales information exists

ensure that you only use Rule 10.3 if no comparable or semi-comparable sales information exists

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Rules 2012



# Rules Extracts from The Code of Conduct



**10.6 Before a prospective client signs an agency agreement, a licensee must explain to the prospective client and set out in writing —**

**(a) the conditions under which commission must be paid and how commission is calculated, including an estimated cost (actual \$ amount) of commission payable by the client, based on the appraisal provided under rule 10.2:**

Real Estate Agents Act  
(Professional Conduct  
and Client Care)  
Rules 2012



# Rules Extracts from The Code of Conduct



- **10.4 An advertised price must clearly reflect the pricing expectations agreed with the client**
- **10.9 A licensee must not advertise any land or business on terms that are different from those authorised by the client**

Real Estate Agents Act  
(Professional Conduct  
and Client Care)  
Rules 2012





# What is Appraisal?

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- **definition**
  - “an estimate - fixing a price”  
**Oxford Dictionary**
- **valuation vs appraisal**
  - **terminology**
- **market value**
  - **public auction**
- **registered valuation and NZIV**



# CAC and Tribunal findings on Appraisal

- appraisals – failing to provide an appraisal, appraisal falls short of a required CMA, failing to retain a copy of an appraisal, providing an appraisal without inspecting property, appraising the incorrect assets and failing to properly supervise in appraisal related matters:

**various licensees (including agencies)**

**<http://decisions.dotnous.com/reaa/v2/abstract.aspx?case=2285>**

**<http://decisions.dotnous.com/reaa/v2/abstract.aspx?case=2261>**

# Comparable Sales Approach in the Residential Market

- the most acceptable road to “market value”?
- selecting market comparables
- one path to “most probable, or most likely, selling price”





# Sales Approach in the Residential Market

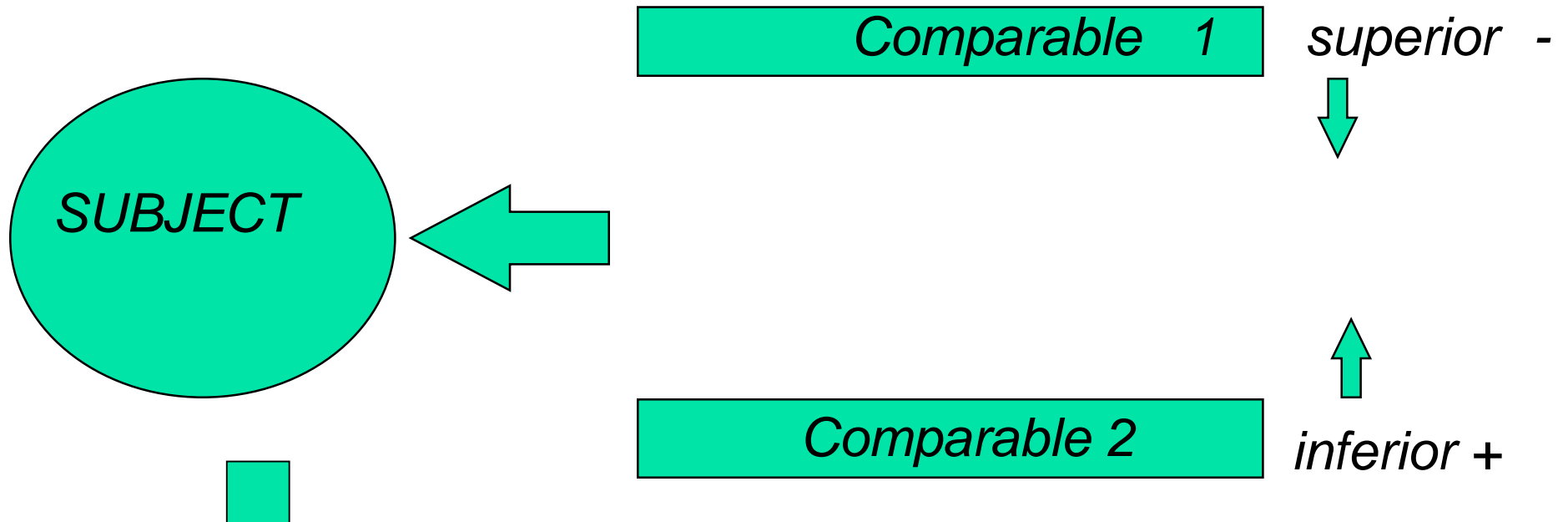
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- **basic steps**
  - inspect the subject property
  - search for sales and other data
  - select the most comparable \*
  - analyse the sales
  - compare with subject property
  - estimate the value

**\* remember you must select out any non-comparables**

# *Making the Comparisons*

- a subject property is compared with a group of similar properties (4-6), which are then adjusted to bring them as closely in line **with the subject** as possible





# Appraiser's Role

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- to simulate an auction
  - - subjective opinions
  - - sale is objective opinion
- appraisers simulation
- (fair) market value
- when to use the income approach



# Presenting Comparable Sales Information

ensure that the client understands the following:

- why these properties have been selected as relevant; and how the information you are presenting translates into the appraised price you have arrived at for their own property



# Presenting Comparable Sales Information

**the appraisal should conclude with a short summary reflecting the link between the most comparable properties and the subject property**





# Presenting Comparable Sales Information

**the summary should include the reasons for the choice of those comparables and end with the appraised price, or price range of the subject property (no more than a 10% spread). You can also add a comment on market conditions**





# Presented by

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**for**



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