THE **PEE** FORMULA FOR APPRAISALS

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I've used a cute title to get your attention, but this is actually a very serious subject. Just take a quick look at Real Estate Agents Authority (REAA) Complaints Assessment Committee decisions. You may be surprised at the number of times the issues of appraisals feature.

Complaints usually relate to failure to prepare a sufficiently thorough appraisal, or to present it in a manner that ensures the prospective client fully appreciates the information and the implications involved.

Are you concerned that when you present an appraisal you are putting yourself at such risk? Are you worried that the prospective client will reject what you have to say? The reception you receive from such people is dependent on three factors:

- how well you have prepared
- how much you engage then in the appraisal analysis
- how well you explain the value range you have applied.

And that's where the PEE formula comes in: **Prepare, Engage, Explain**

These are the three steps you need to take with any appraisal. Let's look at each of them in turn.

Prepare

Good quality appraisals require effort. First, you have to thoroughly inspect the subject property, recording every relevant detail. If this sounds too obvious, you'd be surprised at the number of times I've seen a licensee glance through a property, barely entering some of the rooms or inspecting the exterior features.

There's much more to preparing an appraisal than just logging onto a property information website, clicking a few menu choices, and downloading a list of ostensibly comparable properties. While this may be a reasonable starting point, it's nowhere near enough to satisfy your obligations under Rule 10.2 of the REAA (Professional Conduct and Client Care) Rules 2012.

These rules require a minimum of a CMA (competitive market appraisal). A thorough CMA requires a thorough knowledge and understanding of the market.

Unless you're an absolute beginner – or have just moved to a different work area – you should be well familiar with what's been selling in your area. By this I mean much more than just knowing street numbers and sale prices.

However, beware of the privacy issues that surround disclosure. You can only disclose sale prices once these have become part of the public record. If you wish to disclose them sooner, you need to obtain the written consent of the sellers and buyers. You are further restricted from disclosing confidential personal circumstances surrounding the sale. This applies even if you personally facilitated the agreement – your fiduciary obligation continues forever, not just till settlement!

You also need to know what's currently on the market, so that you can analyse these properties as well.

Use as many points of reference as possible to maximise the accuracy of your appraisal. The property information websites you probably use all have the facility to search using highly-defined parameters. My preference is to start with the narrowest options – e.g. the smallest geographical range, the most recent sales, similar age and construction to the subject property., the same number and type of rooms, etc. If this doesn't give sufficient data for comparison purposes, I recommend expanding one or two parameters at a time in order to keep the final range as close to the subject property as possible. Sure, this takes a little more time at the start, but the properties you eventually identify should be very good comparisons.

For data about properties currently on the market that will represent your subject property, there's just one final test. This is to make sure each of the properties you plan to use as comparisons are genuinely relevant: it's the "List" test. Put very simply, the List test is a question you need to ask yourself:

> 'If I were going to show the subject property to a buyer, would I also include this property (if it were available for sale), on the list of properties I plan to show?'

If your answer is 'No', that property is not a suitable comparison, and should not be included in your CMA.

If your answer is 'Yes', you should include it in your CMA. If the property is sold, show the sale price and the date of sale. Include the length of time the property was on the market, and the original asking price, if you have this data.

In the unusual event that you are unable to find any properties that are appropriate comparisons, you still need to prepare a CMA. While this may seem odd, because there are no properties to be included, it is an obligation under Rule 10.3 of the Code. You need to clearly state (in writing) that there are no relevant comparable properties. If this is the case, I recommend you use one or more of the common alternative appraisal methods.

Your CMA must be carefully prepared, proofread and checked for accuracy. People often relate better to a photo that they can recognise than just dry text. If, in addition to the data and your analysis, it includes small photos of the comparison properties, that's good.

For just a moment, we're now going to skip ahead to the third phase: Explain. Part of this is something you need to prepare in advance. Consider what the data has revealed to you, and try to examine it from the client's point of view. Think about the issues you expect to be raised, and look for ways to integrate them into the conversation you are soon going to have.

I'm assuming you're working in a *best practice* office. Part of best practice, in my opinion, is that your branch manager or supervising agent oversees (and ideally, signs off), your appraisals before they are delivered. This is one important way in which the manager or agent can comply with their responsibilities under s. 50 of the Real Estate Agents Act 2008.

Okay, now you're fully prepared. Let's move on to the second of the three stages – engaging with the prospective client.

Engage

Once you've fully prepared and checked your appraisal document, you'll need to present it to the prospective clients. I'm assuming that in most cases you'll be doing this face to face, which is what I describe below. However, if you're at some distance, it helps to email the report, and follow this up with a telephone conversation if possible.

First, a question. Have you ever invited clients into your office to review and discuss the appraisal? Probably not, because you've likely been conditioned to meet them at their property. Which is where the emotional ties are. But at your office, the clients get to see the 'machine' behind the person – the physical enterprise that is your agency (or at least a part of it). They're also removed from their emotional environment, and more likely to think rationally about what is, in fact, a business transaction.

The engagement process is not as simple as it might first appear. Unless they are very inexperienced and quite naïve, your clients are likely to be mildly suspicious of your motives. You are there to persuade them to bring their property to the market based on your recommendation of price and conditions. They are not yet convinced of your intentions: are you truly working in their best interests, or is your agenda to achieve a quick sale, possibly at their expense?

Conversely, you are probably not yet fully aware of the circumstances surrounding the possible sale. Many clients are slow to reveal the truth of their situation, or may never disclose it to you.

Whether your clients choose to disclose or not, you need to discreetly demonstrate that you have full belief and confidence in them. Prepare a clear and coherent narrative to help you work through the engagement process. Here are some key points to keep in mind:

- Invite them to discuss their current understanding of the appraisal process. (This may include commentary on appraisals they have received from other salespeople.)
- Ask open questions to help you build a clearer picture of their needs, wants and expectations.
- Think about new and different ways to view the situation. (Have the clients considered alternatives to a sale at the present time? We'll discuss that in the next section.)
- Expect and plan for objections to your appraisal and whatever marketing methods you propose.

Most people will instinctively understand the CMA method, and quickly recognise its features. However, if you have taken the extra steps to apply one or more alternative methods to support your argument, you will almost certainly win the client's respect, and this should help you when you come to the third stage – explaining the market value of the property.

Explain

Once you have shown the appraisal, and given the clients time to read and absorb the main content, you need to discuss your analysis and explain the reasons for your findings. Your written appraisal document should contain sufficient detail that the clients can easily relate the comparisons used to their own property.

Discuss the positive and negative aspects of the current market and how these are reflected in your appraisal. These won't always just revolve around the price recommendation.

There may be many similar properties currently on the market which serve to increase the competition for your clients. Or there may be very low demand for this type of property – again an issue that needs to be addressed.

Are your clients working to a specific timeframe? Have they considered alternatives to a sale? (Such alternatives may include a renovation or redecoration project, retaining the property as an investment, or simply delaying the sale process.)

You can usually assume that you are in a competitive market for the clients' business. If the clients report to you that other agencies have given more favourable appraisals, ask whether your 'colleagues' in the other agencies (I never call them competition when speaking with clients) gave you a detailed analysis of the properties they'd chosen. Were they the same properties that you have used? Offer to quickly review the properties that have been used in other appraisals so that you can discuss them, fairly and reasonably.

The appraisal process is an essential part of winning the business. It should not be the time to discuss commissions, discounts or other incentives to the clients. If they wish to delve into such matters, gently explain that before you can proceed to do business together, you must be in agreement on the preliminary, and perhaps the most important issue – the market value of their property. Once this is agreed, you can go on to discuss how this will best be managed, and under what conditions.

The process - selecting and analysing appropriate data, preparing the appraisal document, and presenting the appraisal itself – is a significant part of your work, and must be treated with the utmost respect, and given the time and care it so rightly deserves.

You may have noticed that approximately half this article is devoted to the issue of preparation. That's because that's where you need to devote most time and energy. In doing so, you will be maximising your personal protection against claims that you gave a misleading perception of the property's value. By then engaging with your clients and taking the time to explain important issues to them, so that they see you as a collaborative partner, you are increasing the likelihood that you will be the one chosen to represent them at the time of sale.

Now that you've read the article, I suggest you spend a few moments considering how closely what I've written here matches your current behaviour. If there are improvements to be made in your performance, please do so immediately. If you'd like to learn about other appraisal methods you could apply to your work, please get in contact with me.

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