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Appraisal Institute president message: How is the market?

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If you introduce yourself as a real estate appraiser, you are invariably asked, "how's the market?" And sometimes, the questioner is serious. Appraisers are constrained by the Uniform Standards of Professional Appraisal Practice from making even general statements concerning the value or utility of real estate without first performing certain actions, yet we are allowed to cite sales and other market evidence. Therefore, I usually respond with a somewhat dull overview of property types followed by a summary of geographic market areas and activity at certain price points that reflect the varied availability of financing for those property types within those areas. This is before I mention vacancy, tenancy, or tenant credit quality. When I am done, I do not know if I have said anything of use to the questioner, but hopefully I have convinced them of two points; first, I am capable of answering the question more specifically, and, there are a lot of factors that affect the answer to this seemingly simple question.

So the greater point is this, I have been appraising real estate since the early 1980's and enjoy digging into a market and learning what its drivers are, yet I cannot recall a time when the market was more fractured than it is now. The days of cut and paste market summaries and data are over. There are sub-markets where construction activity is apparent and pricing is as if general economic conditions are nearly as they were several years ago. The reverse is true as well. In light of this reality, and while some would describe developers as optimists and appraisers as pessimists, the appraisers are trying to be realists. In that effort, the prudent appraiser must not pre-judge the current market and marketability of a property. There is currently a substantial level of research and analysis required to identify where the subject property fits within its market. Curtailing of this process incorporates a significant likelihood of error and all that goes along with it.

We can all supply examples of good and bad market areas for certain property types. The upside from a market analysis perspective is that deals must make sense. Buyers are not paying for what auto dealers' once described as "blue sky" value. Appraisers need not incorporate rent spikes and can usually support rent changes through recent, although limited activity. Overall, the current market theme is that a transaction must make sense when analyzed with a good understanding of the property's market and with application of criteria that reflect reasonable risk in a real estate investment. When accomplished, buyers will purchase; and if not, they move on. Conversely, sellers are not generally accepting short term gloom and doom scenarios as real estate is back to being viewed as a long-term investment.

We bring our past experiences to a new assignment, yet today we can easily be wrong by assuming that we know "the market."

*The Appraisal Institute's Highest and Best Use and Market Analysis course has been rewritten. (Even its prior version was one of the best courses I have ever taken.) Visit our website www.ma-appraisal institute.org for information on this and other upcoming courses.

*The Massachusetts Chapter of the Appraisal Institute has been involved with and supports the current AVM bill now before the Massachusetts House. With one exception we also support the two-year license cycle bill that is nearly the same bill we introduced in 2006. The exception is that the current version proposes to allow appraiser trainees to remain so indefinitely; with that we disagree.

*Lastly, it was two defensive miscues that cost the U. S. hockey team gold not the final shot. That still was a great game.

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