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Managing appraisal clients' expectations in property value

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When a potential client contacts an appraiser to value a particular property, he or she often has a value in mind as to what that property is worth. That value may be based on a prior appraisal, the assessed value, the price a nearby property sold for, the amount the owner has invested in the property, the suggested asking price put forth by a real estate broker, or some other source. Our job as appraisers is to educate our client, whether a bank, property owner, attorney, or other entity, that in the course of performing our duties as appraisers we are ethically bound to accurately reflect the value of the property based on solid market evidence as of the date of valuation. Our job is not to make our client happy because we came up with the expected value. If we do arrive at the expected value, this event will be due to solid market evidence, not our client's wishes.

A prior appraisal is just that - an estimate of market value as of the date of valuation of that appraisal. Due to changes in the marketplace as well as changes in the property itself, the current value may be greater than, less than or the same as the value determined in the prior appraisal.

The assessed value of a property is expressly developed for the purpose of real estate taxation and is not necessarily a reflection of actual market value. The tax year typically runs from July 1 of one year to June 30 of the next year with the assessed value based on the condition of the property as of April 1 of the first year. Each municipality has a declared tax ratio of assessed value to market value. For example, if a town's tax ratio is 80%, that means that statistically, the assessed value is 80% of market value based on arm's length sales that have taken place within that town within the prior year. The ratio is a statistical average only, and not a definitive statement about the value of any one property.

The sale price of a nearby property is a helpful parameter to take into consideration when valuing a property, but is not to be relied upon as the only indicator of value. The circumstances of the sale must be investigated and a comparison made between the subject and the sale, not to mention the necessity of finding other comparable sales.

The amount a property owner has invested in a particular property is useful information to the appraiser, but it is not always a meaningful indication of value. A perfect example of this situation is the addition of an in-ground pool to a residential property. The pool may cost many tens of thousands of dollars to install, but not add that amount to the market value of the property.

The suggested listing price developed by a broker is based on research by that broker for the specific purpose of determining a listing price. A listing price is often the maximum amount a property is anticipated to bring in the open market and in many instances is negotiated downward in an executed purchase and sale agreement.

The best method of managing client expectations is to make it abundantly clear to the client before any contract for services is signed that your job as an appraiser is to determine value based on solid market evidence as of the date of valuation and that this value may or may not be within expectations. Even if this is made clear from the onset of the appraisal assignment, the client may have questions regarding the appraisal. Any reasonable questions should be addressed. That being said, some rare clients can be very argumentative and unreasonable. It is the client's right to advocate for his or her financial perspective; however, it is the appraiser's ethical and fiduciary responsibility to determine market value based on solid market evidence from the perspective of a disinterested third party.

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