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What is market value according to appraisers?

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Almost any real estate professional can provide the textbook definition of market value – the price a willing buyer will pay and a willing seller will accept for a property. Simple enough. But really, what is market value? If one thinks about this question for a sufficient length of time, the answer becomes quite complex. Market value is solely a human construct. In other words, only people create value, typically through the interactive forces of supply and demand. Supply is the amount of a particular item, in this case real estate, available for purchase. Demand is the desire to purchase the particular item. Supply and demand have an inverse relationship with each other which impacts value. That is, the larger the supply and the lower the demand, the lower the value; and the inverse, the more limited the supply and the higher the demand, the higher the value. Supply and demand for real estate can fluctuate wildly as the economy has witnessed over the most recent real estate cycle. In the early to mid 2000s, the demand for real estate, particularly single-family residential housing, was extremely high. Numerous factors created this demand, the most prominent of which was readily available financing fueled by mortgage backed securities. Such a large demand in turn created a limited supply and increasing prices. This situation of limited supply and high demand is described as a sellers' market where sellers are more in control of pricing. To alleviate this limited supply and address the high demand (as well as generate profit for the developer), more buildings were constructed. A general attitude existed that real estate prices were going to continue to increase forever. As we all know, this just is not the case. Starting in 2007, a dramatic shift occurred in the supply and demand formula whereby the supply became abundant, demand slackened and prices dropped precipitously. Across the nation, prices of single-family residences fell by an average of one third with some areas of the country hit much harder. This situation is known as a buyers' market. Many factors impact supply and demand. To the already mentioned availability of financing can be added the employment situation, quality of life issues, governmental policies such as environmental and zoning regulations, availability of services, crime rate, climate (including natural disasters such as hurricanes and floods), population density, and the list goes on. Any of these factors can change in a very brief period of time. Such changes can have drastic impacts on value in an equally short period of time. To give common examples, the announcement of the closing of a major employer in an area has an almost immediate negative impact on market value of property while the announcement of the arrival of a major employer can have the opposite effect. These changes are the primary reason why any value within an appraisal report is as of a specific date. A primary responsibility of any appraiser is to keep a finger on the pulse of the supply and demand situation in the market in which a subject property is located. A misreading of the situation can result in values that are too high or too low under the particular circumstances. Patricia Amidon, MAI, is president of Amidon Appraisal, Portland, ME.