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# Appraiserâ€™s defense proved by data, not what they think

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It’s been one of those months where appraisers know they must be doing a good job because all their clients are equally angry with their value conclusion. Estate and tax assessment clients argue we are too high; borrowers argue we are too low; and legal clients just argue. This is a common dynamic where the appraiser’s defense must be rooted in what they can prove using data from the market, not what they (or their client) think. In general, disagreements around a value conclusion are rooted deep within the definition of value used in the appraisal. Every appraisal assignment is built around seven elements that define the valuation problem the client would like solved. The definition of value is one of those seven elements and has a large affect on the conclusion. Well over three-quarters of the work in our office require an opinion of ‘Market Value’. This definition is penned in federal law and mandatory in appraisals that are used in mortgage lending by a regulated mortgagee. Market Value is, simply, the most probable price the property will bring in the market after reasonable exposure between a willing buyer and seller, each well informed and acting in their own best interest.  However within this same term, Market Value, there may be hundreds of nuanced versions. As an example; my client is an estate who hires me to develop an appraisal to be used in connection with a probate court hearing and an IRS estate tax filing. Immediately, I know I must use the IRS definition of Market Value, which for all practical reasons is identical to that above, and develop a value conclusion as of the date of death. After careful research and thoughtful analysis I conclude a Market Value that happens to be 15% higher than the seven out-of-state heirs have just agreed to sell the property, six months after the death, and after an atypically short marketing period in the local MLS system. The estate, noticeably upset over the value conclusion relative to the current sale price, call for an explanation. Both values meet the definition of Market Value. The IRS definition assumes a reasonable exposure in the market, a seller acting well informed and in their own best interest. But the current sale transaction has all those elements. The property was publically listed in MLS, the seven heirs were acting in their own self interest and were well informed by their listing agent. The answer to the difference in value is rooted in the motivations of the seller. After some discussion we find the estate was motivated to sell the property as quickly as possible because none of the heirs wanted to bear the costs of carrying the vacant property over an extended marketing period and the estate needed cash to help cover other costs and legal fees. Working with a knowledgeable broker they chose a list price that resulted in a sale in a much shorter than typical marketing period that freed up the cash they needed for other purposes. This sale, at what we might call Estate Value (though this term has no accepted meaning), has all the elements in the definition of Market Value, but the motivations of the seller do not match the motivations of the typical seller. This same example could be applied to a short sale or a sale after foreclosure. These transactions all meet the definition of Market Value, but the motivations of the seller and buyer may be wildly different than the assumptions underlying the appraisal assignment. This highlights the need for an appraiser to understand motivations inherent in the value being sought; and to confirm a sales transaction with a party to the sale, because within the same definition of value the motivations of the buyer and seller will affect price. These motivations may result in a condition of sale adjustment if the estate sale is subsequently used as a comparable where the underlying assumption is a seller typically motivated. But, if I am ever asked by seven out of state heirs to develop an opinion of the Market Value of the property to them, knowing that they need cash and are motivated to sell the property quickly, I may just have the perfect comp. Sean Sargeant, SRA is the 2012 president of Vermont chapter of the Appraisal Institute, Rutland, Vt.