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Appraisal Institute helps appraisers analyze real estate market trends

October 11, 2012 - Spotlights

The Appraisal Institute, the nation's largest professional association of real estate appraisers, published guidance June 4th to help appraisers analyze market trends. The Appraisal Institute's "Guide Note 12: Analyzing Market Trends" addresses to what extent appraisers are responsible for recognizing changes in market conditions, and what steps appraisers must take to ensure due diligence is done regarding the analysis of market trends.

The Guide Note states, "Analyzing current and anticipated market conditions is more complicated - and more critical - when a market is rapidly changing, either upward or downward."

Adequate market analysis must be completed before highest and best use analysis, and the determination of highest and best use is critical to an appraisal assignment when market value is the objective, according to the Guide Note.

The Uniform Standards of Professional Appraisal Practice include rules that address the steps appraisers must take to ensure due diligence is done regarding the analysis of market trends. Standards Rule 1-3 states: when necessary for credible assignment results in developing a market value opinion, an appraiser must: (a) identify and analyze the effect on use and value of existing land use regulations, reasonably probable modifications of such land use regulations, economic supply and demand, the physical adaptability of the real estate and market area trends; and (b) develop an opinion of the highest and best use of the real estate.

USPAP Standards Rule 1-6 requires the appraiser to: (a) reconcile the quality and quantity of data available and analyzed within the approaches used; and (b) reconcile the applicability of the approaches, methods and techniques used to arrive at the value conclusion(s).

According to the Guide Note, "Reconciliation is an important step in the valuation process, especially when market conditions are such that good quality, current data is lacking."

Signs of a changing market are symptoms, as opposed to causes, according to the Guide Note. An appraiser observes the symptoms, but must understand the underlying cause or causes in order to properly analyze market trends. For appraisers and market participants, a "bust" market is usually relatively obvious. However, it can be difficult to spot a "bubble" market when in the midst of one. Further, it can be difficult to tell when a bust market has started to turn and improve, or when a bubble market has begun to decline.

The Guide Note states that while appraisers generally analyze historic data such as comparable sales in the valuation process, it is important to recognize that the value of a property is dependent on the future benefits that a property will bring to its owner. Market values are therefore forward-looking.

Competent appraisers, such as Designated members of the Appraisal Institute, continuously interact

with buyers, sellers and agents of transaction activity. Such interaction allows appraisers to ascertain, analyze and understand the motivations of market participants.

However, appraisers are not expected to be prognosticators. Unforeseen events can completely eradicate conclusions that have been based in trend analysis or fundamental market analysis.

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