

## What type of value do you think you need?

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The type of value that forms an appraisal objective can be vague and ambiguous to many clients and appraisers. For example, an appraiser's eager, fictitious client says he has a "simple" appraisal request involving a restaurant he wants to add to his existing hotel on unused land where contamination has been successfully mitigated. He already "knows" what the hotel is worth and is "comfortable" with his estimated remediated land value. He would just like to know the "value of the restaurant on completion" so he can move forward with the equity syndication of the "completed business".

Just another simple appraisal? Not really, and where do we start? First, a probing conversation with the client is needed to determine the intended uses and users of the appraisal; the type and description of all of the assets; and the property rights involved. This is part of the USPAP required Scope of Work and leads to the type of value(s) needed. Many clients know they have a problem and are challenged identifying and articulating exactly what it is they need. As an appraisal reviewer and real estate advisor, I've learned that this is an area where we can be of great assistance. If highest and best use analysis is commonly accepted as the fulcrum of an appraisal, then that fulcrum in turn rests on the definition of value and the discussion that precedes it. Once this foundation is laid, the appraisal problem and type of value(s) the client really needs should emerge.

There are dozens of values that can be appropriate appraisal objectives, and often more than one at a time. I refer you to several sources that cite and define them, sometimes with conflicting or ambiguous semantics. You can visit the Uniform Standards of Professional Appraisal Practice ("USPAP") where a brief Definitions section is presented with several of the more prominent ones, including "Market Value" and "Value". There, value is expressed as an "opinion... of a monetary concept" that "presumes the transfer of a property, as of a certain date, under specific conditions set forth in the definition of the term identified by the appraiser as applicable in an appraisal". This general definition is only an intended, bare framework within which a specific type of defined value is selected. Note that a Broker Price Opinion (BPO) or a Competitive Market Analysis (CMA) are relevant to list price and not by themselves appraisals of value, the latter of which require compliance with USPAP.

Some other primary sources include the Appraisal Institute's Dictionary of Real Estate Appraisal, FIRREA, the Uniform Appraisal Standards For Federal Land Acquisitions, Interagency Appraisal and Evaluation Guidelines (for OCC, FDIC, Federal Reserve and OTS government-related entities), IVSC and the American Society of Appraisers. By the way, for anyone who has the time and enjoys gymnastic sparring and speculating over value definition semantics and intentions, excellent choices are the lively and often endless discussions about them in appraisal courses or on line blogs.

As for our restaurant developer introduced above, he of course needs several different types of value involving more than one economic unit. The values sought could require several possibilities

including current market value; value in use; prospective, hypothetical values on completion and stabilization; business enterprise value allocated to realty, tangible and intangible assets; investment value; and land value as impacted by potential stigma, among others.

In conclusion, the results of an appraisal or counseling session are moot and misleading without an understanding and agreement about the type of value sought. The reader is encouraged to refer to the Appraisal Institute, Appraisal Foundation, and other credible sources for clarification. And, obtaining assistance from appraisers and advisors who have the appropriate professional training, skills and experience is highly recommended.

In a future article, some other interesting and complex types of value will be explored, like "social or option value" debated with conservation land acquisitions. And, "easement value" regarding intertidal (beaches) and submerged land. The scarce amount of sand and cobble beach produced by more than 3,000 miles of weather beaten Maine coast is in the news again. Upland, private property owners and the recreating public are back in court jousting over historical, habitual rights to beaches for far more than archaic "fishing, fowling and navigating". A lawyer's dream come true, this intriguing property rights battle takes us back to the mid 17th century when Maine was still a part of Massachusetts and subject to its laws, language and evolving intent.

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