



nerej

The complexity of the appraisal process

October 17, 2013 - Spotlights

Few people, appraisers and users of appraisal services among them, fully understand the complexity of the appraisal process. Distilled to the most basic level, the appraisal process consists of four deceptively simple steps which are: 1) inspection of the subject property to be appraised; 2) research of comparable sales; 3) adjustment of these comparable sales for differences between them and the subject; and 4) conclusion of a value indication for the subject based on the adjusted sales. The theory is simple enough; the practice itself is very complex and can be overwhelming.

The inspection of the subject not only entails visiting the property and carefully observing and confirming its physical characteristics but also doing so in the context of the marketplace. To properly gain an adequate understanding of the subject, the appraiser reads the legal description contained within the most recent deed; investigates the physical characteristics of the property such as area, frontage, topography, vegetation, available utilities and improvements; researches the legal constraints on the property imposed by zoning and other regulations; observes the neighborhood for factors that may impact value; analyzes the supply and demand for a property like the subject; and is aware of larger economic patterns and social trends that have the potential to greatly influence value and marketing time.

The research of comparable sales is equally daunting. The theoretical basis for a comparable sale is the principle of substitution; that is, no buyer will pay more for one property than another that is equally desirable. The major reason for the difficulty in identifying comparable sales is the fact that all real estate is unique. No two properties are exactly alike in that if nothing else, they are in different locations even if adjacent to each other. Another issue revolves around finding an adequate number of comparable sales or in the case of multiple sales choosing the best among many. Once a sale is deemed to be a potential comparable, more research is required to adjust for factors such as confirming the sale is arms length, considering the type of financing, if any, identifying any unusual circumstances surrounded the sale, and the like. At times, a sale that initially appears to be a perfect comparable has to be discarded due to unusual circumstances.

The adjustment of the comparable sales is also a challenge for the appraiser. Ideally, any adjustment is market supported based on a paired sales analysis or some other quantifiable basis. Often, an appraiser will be aware that one sale is superior or inferior to the subject but have no way to adequately measure that difference. In some instances, the sale and the subject may be very different in a particular aspect, but the market may not recognize that difference. For example, one property may have more land area than another but if the market is not willing to pay for this extra land, an adjustment is not indicated.

Concluding a value indication based on the adjusted sales is also a complex task. This step is not a simple averaging of the results but a very carefully considered process. The appraiser must decide which of the comparable sales are the most like the subject, which are least like the subject, and

where to give the most weight. The adjusted comparable sales will provide the appraiser with a value range for the subject, and the appraiser must then decide where within that range the subject falls based on clearly stated reasoning.

Appraisal is not a simple straight forward linear process, but a global one in which the appraiser needs to take into consideration many different factors at the same time. The appraiser, to adequately execute the appraisal process, must be a professional generalist with a broad knowledge base of many diverse disciplines. The appraiser must be an astute observer, researcher/investigator, analyst, and a good communicator. All these skills are rarely found in one individual!

Patricia Amidon, MAI, is president of Amidon Appraisal, Portland, ME.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540