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Dealing with challenging properties for appraisal

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Every appraiser during the course of their career encounters those unique subject properties that challenge his or her professional skills. Some of the more unique properties from my career include the valuation of railroad corridors, utility easements, air rights, cell towers, and a single family residence with multiple wall murals painted by a well-known deceased artist. The most often utilized methodology for valuing property is through the application of the Sales Comparison Approach. However, in the case of a very unique property, truly comparable sales simply do not exist. In this instance, what does an appraiser do? In a nutshell, the appraiser analyzes the existing market data that is available and extrapolates from that data a reasonable value conclusion for the subject. At times, this process involves creative problem solving.

For example, valuation of air rights was a challenge for me. The assignment was to value the air rights over an existing two-story office building for the construction of a new bridge. The bridge was designed to be approximately 50 feet above the building and effectively eliminated any direct sunlight on the structure. A review of recent real estate transactions revealed no transfers of air rights, making the application of the Sales Comparison Approach irrelevant. To quantify the value of the air rights, I choose to compare rental rates of office space on upper floors to those of basement level office space. Market data indicated basement level space rental rates to be 25% lower than comparable space on upper floors. Therefore, I was able to capitalize the rent loss as a result of the bridge construction to value the air rights.

In some situations, the client may not provide sufficient information to the appraiser at the time of engagement to determine that the subject is a unique property not easily valued through standard methodology. The appraiser may have no awareness of this until after the inspection or upon further research of the subject or comparable sales. When this occurs, the appraiser may decide to contact the client to discuss the scope of work and/or fee and renegotiate the contract for services. In any event, the appraiser must have the competence to perform the assignment when the subject property is not within the appraiser's professional experience.

The Uniform Standards for Professional Appraisal Practice (USPAP), the ethical foundation of the appraisal industry, provides clear competency guidelines for the practitioner. If an appraiser concludes that he or she is not competent to adequately appraise a property but wants to proceed with the assignment, they must inform the client that he or she does not have the skills to properly perform the appraisal and is willing to gain the competency through education, study or supervision by another appraiser with the competency to complete the assignment. At this point, the client determines whether to hire this appraiser or find another who is competent. If the client does hire the appraiser, the appraiser must clearly state in the report that he or she was not competent to value the property at the onset of the assignment and what steps were taken to gain that competency.

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