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Reconciliation can similarly be complex for appraisals - by David Kirk

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Appraisals of commercial real estate and other special purpose properties consider three approaches to value and conclude with a reconciliation of the approaches to estimate a final value. The three approaches to value are cost, sales comparison and income capitalization approaches. Reconciliation is the reasoned process of making two or more different facts or ideas result in a single conclusion. Appraisals are more often complex with data and analyses. Reconciliation can similarly be complex, weighing the resulting value estimates from the approaches when two or more approaches are considered relevant for the appraisal process. Global conflicts have increased significantly the current reporting of reconciliation, and appraisal reconciliation has lost the luster once shining in the appraisal process. We should remember the importance of reconciliation, a reasoned process, in the U.S. non-residential real estate markets with high transaction volumes and persistent fundamental growth. All approaches are often relevant.

The cost approach captures the current impact of land prices and values, and the current impact of rising construction costs based on materials and labor fluctuations – all up. The sales comparison approach captures current transaction activity, the capital and inventory conditions in the related markets. In commercial real estate markets, the income capitalization approach is the most highly relied upon approach, if not the most highly reliable approach. The income capitalization approach captures current micro- and macroeconomic conditions that relate to the appraisal of the property. The value estimate from the income capitalization approach is based on current market and financial data derived from the relevant property and capital marketplace. The three approaches capture the current motivations of the buyers and the sellers and inform the underwriting process.

Quick and dirty can fail here. In the rush and frenzy to have a Boston asset in the portfolio, record prices are being recorded. Above cost and surpassing current sales records, the successful buyer often pays more than anyone else and more than the true value. Contrarians, scavengers, arbitrageurs, flight capital, strategists balancing portfolios, among others, contribute to ever evolving market frontiers. The appraisal process includes the collection of the data, the analyses of the market terrain and reconciliation of indications of value from the relevant approaches. Not really pedantic or overscrupulous, just logical, sensible and reasonable. The simple luster of a reconciled conclusion of value in a vital market and economy!

Enjoy the summer action and activities. No doldrums expected.

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