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The price of a good story: Appraising stigmatized properties - by Laurie Mentz Nichols

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One of my favorite things about being an appraiser is sharing “war room” stories. Many of the tales I’ve heard over the years are common in the sense that they include the typical things encountered on inspections - animals, unique features, persons in a state of dishabille, or questionable items on the property. While these stories are amusing, I find the ones which pique my interest the most are the ones which a small number of appraisers have encountered - stigmatized properties.

Stigmatized properties, or “distressed” properties, are those which are found undesirable to potential buyers for either psychological or emotional reasons, rather than defects in the physical features or condition of the property itself. The property is considered “psychologically impacted” and its potential value is usually not realized. The categories for stigmatized property include:

- **Murder/Suicide Stigma:** When a murder or a suicide is committed on the premises. Many believe that trauma can linger after someone has unnaturally died in a home and others do not wish to be associated with the notoriety or bad publicity. Examples include the Mercer Williams House, Savannah, GA; the John Wayne Gacy House, Norwood Town Parkship, IL; and Fox Hollow Farm, Westfield, IN.
- **Criminal Stigma:** When occupants have used the property in an ongoing commission of crime and there is a concern that former clients may revisit the property and attempt to engage in illegal activity. Examples include a meth lab, grow house, drug den, brothel, or chop shop.
- **Debt Stigma:** When debt collectors are not made aware that the debtor has moved and continue their aggressive collection attempts, which results in the harassment of the new homeowner.
- **Phenomena Stigma:** When there is perceived paranormal activity, i.e. haunting by ghosts or the presence of poltergeists or demons. Examples include the Winchester Mystery House, San Jose, CA; the Lizzie Borden House, Falls River, MA; and the LaLaurie Mansion, New Orleans, LA.

- **Public Stigma:** When a property is well-known due to its use in films or television productions. New homeowners are subject to the annoyance of increased traffic, pictures, and trespassing by fans. Examples include houses from “The Brady Bunch,” “Breaking Bad,” “Father of the Bride,” “Modern Family,” and “Friends.”
- **Minimal Stigma:** When a small percentage of the population is bothered by the knowledge of an event. Examples include a homeowner who died in the home from a terminal illness or a sex offender living in the neighborhood.

Stigmatized properties represent a small portion of the “special appraisal” market. While accepting assignments for these type of appraisals can lead to an opportunity for a new income stream, the appraiser should be cautious before jumping into a niche market. Legalities for these properties vary state by state as to the level of detail and exposure allowed. The appraiser should be aware of the laws of the state in which they practice regarding the disclosure of stigma. While some types of stigmatized properties must always be disclosed, some disclosures are determined either by the property’s jurisdiction, or at the discretion of the seller or realtor.

The appraiser must ensure that they have the qualifications and the proper tools to approach the inspection. Inspecting stigmatized properties requires a strong stomach to go through former crime scenes and nerves of steel to inspect properties which have rumors of things that go bump in the night. Each situation will have a unique set of parameters and the appraiser should be ready to do their due diligence by investing a significant amount of time for research. Research can vary widely case by case and may include extensive online searches, combing through crime records, visiting the local historical society, and searching for similar stigmatized sales.

Another aspect is the analysis of the market reaction to the stigma, if any at all. Identifying and deriving an adjustment for the effect of stigma is not an actual quantifiable and measurable adjustment; one cannot simply use paired data analysis. As there is no direct quantification and the adjustment is subjective in nature, the appraiser will have to think outside of the box and come up with a qualitative method of comparison. Over time, there will be fluctuations in the market reaction to the stigma and it is up to the judgment and experience of the appraiser to illustrate to the client the reasoning behind the adjustment. The appraiser should select the presentation style and accompanying narrative which best communicates the analysis without being misleading.

While the appraisal of stigmatized properties may not be an avenue worth pursuing due to the level of detailed analysis and the time commitment, it can prove to be a very lucrative area of specialization. If you appraise stigmatized properties and would like to share your adventures, I’m always up for a good story and a cup of coffee.

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