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What does John Lennon have in common with appraising?

September 11, 2008 - Appraisal & Consulting

his song "Imagine," provides a classic example of the hypothetical condition, a concept important when completing the appraisal process. It is noteworthy that many fields including science, psychology, and education also use a hypothetical condition when conducting research experiments.

The appraisal profession describes this concept as "that which is contrary to what exists but is supposed for the purpose of analysis." (Source: Appraising Residential Properties, fourth edition, Appraisal Institute) A hypothetical condition occurs when in an appraisal report as of the current date, facts are taken to be true for the purpose of the analysis, although at the time there are conditions that are in disagreement. Important to understanding this concept is realizing the appraisal value itself is not hypothetical, but rather is based on a hypothetical condition.

When I appraised a new construction property, it was valued under the hypothetical condition that the improvements are completed. Included in the report was a list of the specifications for the completed construction of the property. When a property's improvements were partially completed, I appraised the property as being valued under the hypothetical condition and subject to completion of specific items, such as the fireplace, stairway, and front entrance.

Common procedure is for the appraiser to return to the subject property for an appraisal inspection to certify that the improvements have been completed in accordance with the requirements and conditions identified in the original appraisal, thereby having no impact on the opinion of market value. Another important concept is extraordinary assumption, where the appraiser believes the information is true for the appraisal analysis, however uncertain if in fact the information is true.

The definition of an extraordinary assumption is "an assumption directly related to a specific assignment, which if found to be false, could alter the appraiser's opinions or conclusions." (Source: USPAP, 2008-2009 edition, The Appraisal Foundation)

An appraisal known as a "drive-by" is a common example of this concept. The appraisal inspection for the report is completed off the subject property site. The property's improvements are analyzed predominately from the street, with further property characteristics and condition information obtained from other sources. The appraiser reports on conditions and other relevant characteristics believed to be true for developing the appraisal report. In this case, since the information may or may not be true, to the appraiser there is still the chance the value is developed on an extraordinary assumption about the factual accuracy of the information.

An appraisal report I developed on Martha's Vineyard included an income analysis for properties at this location which are often rented. Because rents change weekly and seasonally, this appraisal included an extraordinary assumption and explained to the client.

An extraordinary assumption, similar to a hypothetical condition, is communicated to the client and includes that this might affect the assignment results. If the appraiser develops the appraisal using a form appraisal report there is an option disclosing this situation to the client in the reconciliation section.

Appraisers may not need to use hypothetical conditions or extraordinary assumptions when completing an appraisal assignment. However, we've seen that an extraordinary assumption and a hypothetical condition are significant concepts in the appraisal process. They are recognized and discussed in each of the 10 standards in Uniform Standards of Professional Appraisal Practice (USPAP), a highly regarded publication, outlining a common set of standards in the appraisal practice profession. Special thanks to appraisers Robert Lyman, Eric Reenstierna, and Jim Rankin for sharing their knowledge on these concepts when I was a Mass. trainee licensed real estate appraiser.

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