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Appraisers are critical during uncertain times - by John Nitz

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In last month's interesting NEREJ article, Marc Nadeau, SRA, discussed the volatility of the residential market, including torrid market appreciation over the past two years and, conversely, a recent cause for concern due to rising interest rates. In somewhat similar ways, changes have occurred in the commercial market, as well, during the COVID pandemic. Unlike the residential market, however, not all commercial properties enjoyed market appreciation over the past two years. Often, a simple query made to a real estate appraiser is, "How is the real estate market right now?" The response should be that it depends on variations in property type, its location, supply and demand, and other market factors, which can result in wide-scale differences.

During the pandemic, various commercial property types fared differently. Apartment complexes, net leased investment properties, and, in some areas, industrial real estate continued to perform well locally, regionally, and nationally. The hot apartment market has been evident with rapidly rising rents and copious new apartment development throughout the country. In contrast, the overall office market plummeted as many companies closed its offices allowing employees to work from home, thus reducing the need for office space. The restaurant market suffered equally or even more considerably. In Connecticut, there were over 600 restaurant closures during the pandemic.

Over the past two years, the demand for appraisers has been extraordinary due to the dynamic real estate market. Financial institutions have been calling on appraisers at an astounding rate for appraisals needed in refinancing and real estate sale transactions. Other avenues demanding appraisers' skills include assessment appeals, feasibility studies, municipal open space acquisitions, estate settlements, charitable donations, divorce cases, foreclosure and bankruptcy cases, eminent domain, and other legal issues.

The demand for appraisers may soon take its toll since there are only 7.5 appraisers per town in Connecticut. Further there are only 77 MAI's and 34 SRA's in Connecticut. The rigors of the appraisal profession have been comparable to CPA's during their busiest tax season and/or lawyers overloaded with cases.

Due to rising interest rates, the future now remains uncertain in the real estate market. Therefore, it continues to be more important than ever to hire and benefit from a highly-qualified, experienced appraiser. As the real estate market fluctuates, appraisers have their fingers on the pulse of changes in the market. On a daily basis, appraisers are researching active listings and real estate transactions, studying economic trends, and conversing with other real estate professionals and investors.

The value of an appraiser should not be underestimated. Those who try to avoid using an appraiser's services oftentimes pay an unexpectedly high price. For example, I am aware of a real estate appraiser who had been called by an individual who donated land to a local land trust. The appraiser had warned the individual that an appraisal was necessary to comply with IRS Publication 561. The individual decided to avoid the fee and consulted with a real estate agent. Two years later, the IRS audited the individual and disallowed the deduction. The donor was then required to obtain

a proper appraisal.

Another example exemplifies the unseen benefit of an appraiser. A property owner called me to appraise his income-producing property for the purpose of selling. After researching public records, I discovered a technical error in the assessment. A correction by the town resulted in thousands of dollars in savings in real estate taxes, which ultimately resulted in an overall higher market value for the property. This savings far outweighed the appraisal fee.

In the ensuing months, it would behoove those involved with real estate to hire and consult with a real estate appraiser when making decisions. The fee for an appraisal represents a very small fraction of the total investment expenditure in real estate, yet an appraisal can save investors and property owners significant money in the long run and also help avoid potential costly litigation fees.

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