



nerej

Appraisers must stick to fundamentals during hectic times - by John Nitz

October 13, 2023 - Appraisal & Consulting



John Nitz

Real estate appraisers, particularly those involved with commercial real estate remain busy despite rising interest rates and an overall slowdown in market activity. During these busy times, appraisers must remember to stay consistent with the fundamentals of appraising. When I was a college student starting out as an appraiser, my late uncle, Donald Nitz, MAI, instilled in me the basic principles of appraising real estate, including measuring every subject building and examining thoroughly the public records of a property. Appraisers must not cut corners in these areas. Relying on assessors' measurements can be costly since often enough, the gross building area calculations are inaccurate in the public records. Variations in building size can have a large impact in the valuation of an improved property, resulting in a general disrespect for the appraisal profession. Various measuring devices are available to aid the appraiser in calculating gross building area, including the old-fashioned measuring tape to electronic laser devices, which are more accurate on interior measurements.

Thoroughly examining public records is also a critical step in the valuation process. In addition to visiting the assessor's and town clerk's offices, research should include the building department, engineering department, the fire marshall's office, and the planning & zoning department for critical information on the subject property. Online access has aided appraisers tremendously; although, not all records are available online. Moreover, in Connecticut, some town halls are better than others on their retention of records on a property. For example, some towns have retained the original architectural plans of buildings dating back to the early 1900s; whereas, other towns have thrown out or lost building plans created as recently as the 1990s. Obtaining site plans and architectural plans assist appraisers by accurately describing the property. Valuing real estate is difficult enough since we must rely on available market data. Thus, it is imperative that an appraiser at least be accurate with the initial description and analysis of the subject property.

The same goes with key sales utilized for comparison. A systematic process can be implemented in researching and developing a comparable sale. The following is just a small part of the critical process:

Confirm or verify the sale with the buyer, seller, broker/agent, a former owner, the appraiser, banker, or property manager. At times, it may be necessary to get creative and contact a neighbor, a competitor, an attorney, or an assessor. This gives you 11 options. Cross verification of a sale can be done with several people involved with the property, especially, key sales. Try to find brokers who are willing to talk. Some brokers will talk and share information and some will not help. Those brokers who help us can be rewarded with referrals and market data.

The following minimum questions should be asked when confirming a sale:

a) Was the sale arm's length? This means that the buyer and seller were not related parties. A purely arm's length sale has been exposed on the market. For example, a sale to a tenant may not be truly arm's length, but can be utilized for comparison if the background of the sale is examined. A tenant may have paid market value.

- b) How did the buyer and seller arrive at the contract/ sale price?
- c) What was the asking price for the property, if any?
- d) How was the buyer found?
- e) What is the buyer's motivation?
- f) Was the seller motivated to sell?
- g) Describe the physical condition of the building at the date of sale?
- h) What was the occupancy of the sale building at the date of sale?
- i) What were the rental rates, expenses, and the anticipated net operating income, (i.e., income less expenses)? The net operating income enables appraisers to arrive at an overall capitalization rate for the sale property.
- j.) If the property is vacant land, what does the buyer intend to do with the site?

As appraisers remain busy with work, they must remember to be thorough with their fundamental duties of appraising and not be tempted to cut corners. From researching the subject property to confirming comparable sales, the appraisal process must not be compromised. In the long run, the continued accuracy of appraisals will not only better serve our communities, the overall economy, and real estate markets as a whole, it will uphold the integrity of our profession.

John Nitz, MAI, is the owner of John W. Nitz & Associates, LLC, Plantsville, Conn.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540