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## **Current economic environment presents new challenges in valuing real estate**

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In today's difficult economic times, it is especially important to remember that an appraiser values a property as of a specified date, and that prior valuations, are just that, an estimate of value as of a prior date. Many property owners, asset managers and lenders are asking appraisers to "re-appraise" properties, knowing that previous values, though valid and accurate just a few years ago, are most likely greater than what the property is worth today. The methodology in valuing the real estate remains unchanged in different market conditions, however, the challenges the appraiser faces in analyzing the data may. Recently, I completed an appraisal on a vacant tract of residential land with subdivision approvals, which I had previously appraised in early 2007, prior to the economic downturn. In the 2007 appraisal land values had been increasing over the past several years at significant rates. However, in the 2009 report, land values, like all property values in the subject market had been declining.

When developing the sales comparison approach, the appraiser looks at recent sales, and adjusts the sales prices for market trends. Market conditions generally change over time, and therefore, past sales are examined to show the direction of change between the sale date of the comparable and valuation date of the subject. In a perfect world, a paired sales analysis, comparing the sale and resale of the same property, produces a good indication of market changes, assuming both sales represented arms' length transactions. The appraiser can also pair similar properties in this manner. When paired sales are not available, the appraiser can review statistics from market data sources, such as local MLS, to show overall value trends and support any market adjustments. In appraising this specific property on different dates, market condition adjustments were supported by analyzing overall trends and interpolating them. While the direction and magnitude of adjustments were different, the methodology behind the analysis was similar.

In developing the income approach, the appraiser must instead look forward and form an opinion of the future of the market. This can prove especially difficult in our current market environment, where the appraiser must project such things as the lease-up of vacant space, releasing of rollovers, rental increases, and sell-out of vacant units. In developing the income approach in the current appraisal, projecting the sale prices of the lots and sell-out period proved challenging, since, in the subject market there had been a limited number of sales of improved lots since 2007, with only two in 2008 and none found so far in 2009. Under active market conditions with numerous sales the estimated lot price was relatively easy to estimate in the earlier appraisal, but much more difficult under current market conditions. With the lack of recent sales information to draw any strong conclusions from, I examined sales of improved single-family homes, over the past few years, noting, a decline in value of approximately 20% from 2007 to 2008, and 23% from 2008 through April 2009. Taking into account the limited number of sales, and the fact that lot sales tends to lag improved sales, I made a

steep adjustment to the average lot price indicated by the data. Estimating the sell-out period of the lots was analyzed by examining volume of recent sale activity, as well as inventory listed in the market. While the method is the same in both an up and a down market, it is more challenging when sales have stagnated, since it is difficult to project when the market will pick up again.

Our current economic environment may present new challenges in valuing real estate, but the steps necessary to produce a credible estimate of value remain the same. The financial crisis in the U.S. that began in July 2007 is still with us in the form of high unemployment, low consumer confidence and high foreclosure rates, all of which trickle down to the local level. Recent U.S. financial market turmoil and ensuing events have impacted the economy in a variety of ways, including an increased level of uncertainty. In analyzing market conditions, the appraiser should apply the best available means to measure the effects of these events.

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