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Counseling in valuation requires add. scope of services

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Clients desire estimates of value as a matter of course on a daily basis, and often real estate counselors are asked to estimate a range and the likelihood of upward or downward movement. Courts of law, including bankruptcy and appellate tax, are typically less interested in a range and require single estimates and are not interested in any likely scenarios. Real estate counselors and appraisers are faced with the same degree of difficulty whether the client desires a range or a point estimate. Methodologies are similar, and data resources are similar. Both assignments require pattern analysis. There is a dynamic, however, in any range or likelihood scenario that adds to the scope of the engagement or assignment.

Economic conditions and forecasts are benchmarks for consistency. Several favorable trends are starting to develop in the economy, global to local. Beyond the declining rates of decline, markets are continuing to stabilize. Capital formation from non-traditional private sector sources for real estate investment is increasing to complement government programs and lags in traditional funding, and to meet ongoing demand for refinancing, development and investment. The rates and terms for the capital stack are indicators of risk and capitalization for the property markets.

The real estate industry produces national benchmarking surveys and local market data for consideration in analyzing the local property markets. There are methodologies for isolating and analyzing the risks that relate to individual properties. Further, transactions are actually occurring in some submarkets. Listings and private offerings are appearing. Auctions and foreclosures are market data points. All are indicators of market activity and helpful brackets in moving the benchmarking data.

Patterns of activity are important and rigorous analysis for trends are the foundation of sound conclusions about the marketplace. However, trends are after all just an accumulation of a lot of anecdotal evidence. An integral ingredient of any valuation is the scavenging for anecdotal evidence. To inform the data selection process and final conclusions, one should undertake some primary research with the market participants - brokers, investors, bankers. Networking with the market participants qualifies for gathering anecdotal evidence.

Counseling in valuation often requires additional scope of services particularly for exploring likely scenarios. The methodological framework and data are established by single value estimates. The information about the likelihood of change is usually already gathered as well. The additional scope however typically does require an additional overlay of judgment. As we move to close the gap between the bid and the ask in our local property markets, remembering where we are in the economic, capital and property cycles will be an important consideration of any valuation estimate.

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