

Frequently Asked Questions About Commercial Real Estate Appraising

When hiring an appraiser, what questions should I ask?

- Are you licensed or certified in the states you practice?
- How long have you been in practice?
- What level of experience do you have with this property type?

Like any job you are contracting out, it pays to compare the resumes of appraisers you are interested in working with.

What appraisal approaches will you use in appraising my property?

The most commonly accepted valuation approaches are the cost approach, the sales comparison approach and the income approach.

The cost approach combines the value of the land and depreciated site improvements with the depreciated value of the building. The sales comparison approach compares the property to others and adjusts for differences. The income approach takes market rents, subtracts a vacancy allowance and expenses, and takes the resulting net income and turns that into value using a factor.

We are not required to provide all three approaches and it is fairly rare that all three are done. Appraisal theory has largely discredited the cost approach as reflective of market value and commercial appraisers usually only provide it when the property is proposed new construction or has been constructed within the last ten years or so. The sales comparison and income approaches are the primary valuation methods used for commercial properties. Even then, there are times when one of these approaches does not reflect the market and although it might be performed, it is given little or no weight in deciding on the final value conclusion.

We know our markets and can advise you which approach or approaches would apply.

How can I help shorten the turnaround time?

The number one way to help shorten the turnaround time is to provide us with the written information we need as soon as possible. Copies of leases, rent rolls, income and expense statements are the needed as soon as possible. Delay in providing one or more of the necessary items will almost always result in a delay in the appraisal process. When we inspect the property, try to have it available for the person who accompanies us through the building.

If you don't come up with the value I want, do I have to pay for the appraisal?

Yes. Appraisers must maintain a third-party position to your transaction. No appraiser can accept an assignment where bias could be interpreted. USPAP has a phrase used verbatim by many appraisal firms on their letters of transmittals:

"Our assignment was not based on the reporting of a predetermined value, a direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result or the occurrence of a subsequent event directly related to the value opinion."

USPAP is very clear on this issue. Appraisers cannot be advocates for any client. Although it may seem unusual to some users to have to pay for a report that did not provide them a favorable outcome, appraisers governed by appraisal licensing laws must remain objective. However, if you feel that the appraiser did not consider all data that they should have, discuss this with the appraiser. And this may affect the appraisal assignment results, if it is deemed relevant and should have been included in the analysis.

Why are the fees for commercial appraisals so much higher than residential appraisals?

There are many reasons why there is a difference. The most important factor is the amount of time it takes to prepare each type of report. Most skilled residential appraisers can do a residential report in a half-day whereas a skilled commercial appraiser needs at least a week.

Residential reports are on a common form with a standardized property type whereas commercial appraisals are mainly free-form documents with information that varies with the property type, market and client needs. Special use commercial properties take longer and can have a multi-state data search radius, thus making it more time intensive and costly to perform than more common property types such as office and apartments.

Can I reuse your appraisal for another purpose?

No. If this is needed, you should discuss this with the appraiser who completed the appraisal assignment. Be aware that many financial institutions will not accept an appraisal performed for one of their competitors unless the first source provides a written release. Also, we are not required to testify in an assessment reduction case if the appraisal was done for something other than a tax appeal.

I want to use your appraisal for financing, but don't have a source. Can you prepare your appraisal for any lender?

The lender typically engages the appraiser. You should make sure your lender will accept our report before ordering. Lenders can have different internal guidelines, so knowing what is required helps prevent the additional time it takes to modify a report or do additional report analyses, increasing the time it takes to get a final product to the lender.

I paid my lender for the appraisal, therefore I should own it.

The appraisal is legally owned by the client, unless the lender "releases its interest" in the document, typically in writing to us. If the lender ordered it, they own it. If you just want a copy of the appraisal, under the Equal Credit Opportunity Act you can be given a copy of it upon written request of the lender.

If I didn't order the appraisal, can I find out the appraised value?

Only if you ask the person who originated the order and they provide permission in writing. However, we can not provide you with this information because it would violate the ethical standards governing our appraisal practice.

Are there different types of appraisal reports?

There are two types of appraisal reports. The options are Appraisal Report and Restricted Appraisal Report. The essential difference between these two options is in the content and level of information

provided. The appropriate reporting option and the level of information necessary in the report are dependent on the intended use and the intended users.

1. Appraisal Report – Provided when the intended users include parties other than the client.
2. Restricted Appraisal Report – Provided when the intended users do not include parties other than the client. This report is more concise than the Appraisal Report.

What type of report do I need?

The appraiser is in the best position to tell you what type of report you need. He/she is required by USPAP to determine the scope of the assignment, the function of the appraisal and use of the report. To do that, he/she will need to understand your needs, so the appraiser is in the best position to recommend one or more of the above choices and to counsel you.

Does the appraised value of the property depend upon whether the appraisal is conducted for the buyer, seller or lender?

The appraiser has no vested interest in the outcome of the appraisal and should render services with independence, objectivity and impartiality - no matter for whom the appraisal is conducted.

I paid for the appraisal. Why am I not entitled to get a copy?

The client is the person who engages the services of the appraiser, usually in the form of an engagement letter. Many times the lender is the one who issues and/or signs an engagement letter, making them the client. It does not matter who pays the bill. Only the client and those who he has specifically authorized are allowed to receive a copy of the report from the appraiser. If the person who pays the bill is not the client, verbal or written permission is required for the appraiser to release the appraisal to anyone else.

Will the market value equal assessed value?

While most states support the concept that assessed value approximates estimated market value; in practice, this often is not the case. Examples include when interior remodeling has occurred and the assessor is unaware of improvements, or when properties in the vicinity have not been reassessed for an extended period.

Shouldn't market value approximate replacement cost?

Market value is based on what a willing buyer likely would pay a willing seller for a particular property, with neither being under pressure to buy or sell. Replacement cost is the estimated cost to construct, at current prices as of the effective appraisal date, a building with utility equivalent to the building being appraised, using modern materials and current standards, design, and layout.

Rarely are they the same number.

My broker performed a market valuation. Why do I need an appraiser to perform one?

There are many reasons why valuations are required to be done by appraisers. First and foremost, the appraiser is an independent, third party. Many times, the appraiser is the only one in the transaction that does not have a vested interest in the outcome. This is the reason for the creation of the appraisal industry in the 1930's.

Another important difference between a broker's valuation and that performed by an appraiser is that a licensed appraiser is bound by USPAP, whereas a broker is not.

What is meant by scope of work?

According to USPAP, for each appraisal and appraisal review, an appraiser must:

1. Identify the problem to be solved;
2. Determine and perform the scope of work necessary to develop credible assignment results;
and
3. Disclose the scope of work in the report.

An appraiser must properly identify the problem to be solved in order to determine the appropriate scope of work. This means that appraisers have broad flexibility and must be prepared to demonstrate that the scope of work is sufficient to produce credible assignment results.



CROSS COUNTRY APPRAISAL

COMMERCIAL REAL ESTATE VALUATION