

Appraisal Institute®

Professionals Providing Real Estate Solutions®

Extraordinary Assumptions/Sustainability

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Appraisal Institute Immediate Past President

RAC Meeting

May 21, 2020

Direction for Appraisers



Market Analysis is Critical

AI Professional Practice recommends:

- Appraisal assignments
- Market conditions
- **Market analysis**
- Appraisal reports
- AI resources -
([https://www.appraisal institute.org/assets/1/7/Appraisal Flexibilities Guide - 4-14 Update.pdf](https://www.appraisal institute.org/assets/1/7/Appraisal_Flexibilities_Guide_-_4-14_Update.pdf))

- **EXTRAORDINARY ASSUMPTION:** an **assignment-specific** assumption as of the effective date regarding uncertain information used in an analysis which, if found to be false, could alter the appraiser's opinions or conclusions.
- Comment: **Uncertain information** might include physical, legal, or economic characteristics of the subject property; or conditions external to the property, such as market conditions or trends; or the integrity of data used in an analysis

Market Conditions Advice

Analyses of market conditions and highest and best use are crucial to the valuation process when a market value opinion is the objective of the assignment.

From: Stephanie Coleman, Director of Screening

- "The best we can do is **talk to market participants** – buyers, sellers, brokers. What's happening with active escrows? Are buyers backing out? Are **sellers holding off on listing properties**? **Reducing prices**? Offering concessions? What's happening with **days on market**? What are brokers hearing? Are tenants renewing leases? Are businesses closing and vacating? Are vacant spaces getting leased? Are developers going ahead with development plans, or have they put them on hold?"

Market Conditions Advice

- "The answers to these kinds of questions provide clues. The appraisal **report should include a discussion** of them as part of the market analysis."
- "Finally, the appraisal report should address the uncertainty in the market caused by the COVID-19 crisis, **not as a limiting condition, extraordinary assumption, or disclaimer**, but rather as part of the discussion of market conditions. While the crisis is still unfolding, it might also be a good idea to highlight key points relating to COVID-19 as a significant factor in the letter of transmittal."

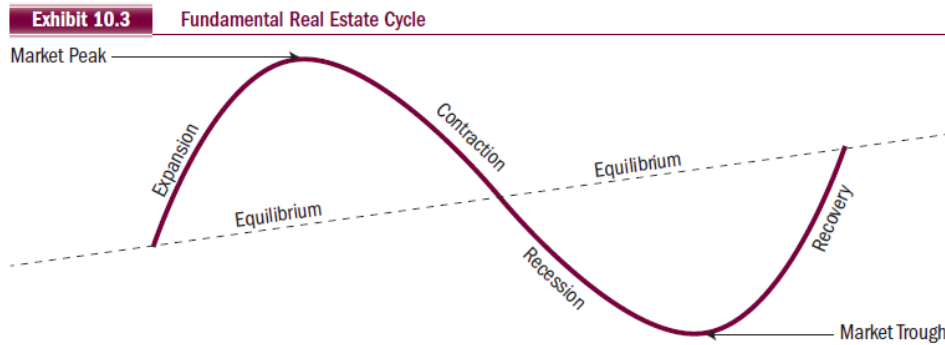
Market Conditions Advice

Analyses of market conditions and highest and best use are crucial to the valuation process when a market value opinion is the objective of the assignment.

- Remember, what we do is render an opinion of what the market participants think the value is, not what the appraiser thinks the value is
- If market uncertainty exists, perhaps it is already reflected in the data, so avoid double-counting
- Avoid unsupported adjustments (zero adjustment is an adjustment)



- Two risks inherently associated with any appraisal that are of particular concern to the intended user:
 - Reliability of the value conclusion may be adversely impacted by a lack of quality data
 - Risk that the value might not be sustainable over time



Source: Kerry Jorgensen and Stephen F. Fanning, "One Step Further—Implementing the Recommendations of Guide Note 12," *The Appraisal Journal* (Summer 2013): 216.

- When necessary, the appraisal report should include a discussion of evidence that the value conclusion may not be sustainable into the foreseeable future.
- This is potentially a controversial and challenging conversation to have with one's client, but it may be a critical issue to highlight

Positives



- Ways to avoid unsubstantiated adjustments:

- Interviews
- Listings
- Pendings
- Days on Market

Keep in mind, zero adjustment is an adjustment

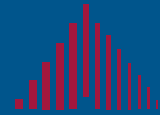
Arbor Chase Market						
Market Participant	Activity	Comment				
1	Possibly heating up in a positive direction as the inventory is light. Sellers are now starting to expose property again.					
2	Properties in good condition in the Arbor Chase market are actually seeing a moderate increase. The property on West Moreland was on the market one day and brought a full price offer.					
3	Property in close proximity to the subject has had offers for purchase within the last two weeks.					



- Contact Information

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