

Professional Standards Update-- Appraiser's Obligation to Consider All Factors of Value

Client A owned a commercial property in the path of a proposed street construction project. He was approached by a representative of the city government to open negotiations for its purchase. Client A engaged REALTOR® B, an appraiser, to make an appraisal of the property. When Client A received the appraisal report he felt that it was unrealistic and was reluctant to use it in negotiations with the city. He then engaged REALTOR® C to make another appraisal. REALTOR® C's appraisal resulted in a considerably higher value which seemed plausible to Client A, who used it in a satisfactory negotiation with the city, avoiding eminent domain procedures. Following completion of the transaction, Client A filed a complaint with the local Board of REALTORS® charging REALTOR® B with violating Article 11 of the Code of Ethics by not considering all factors affecting the value of property in his appraisal on behalf of Client A. The Grievance Committee reviewed the complaint and forwarded the matter to the professional Standards Committee for a hearing.

At the hearing, REALTOR® B defended himself by stating that he was primarily a residential broker; that he knew comparable market values in the areas by virtue of his activities as a broker; that he considered comparable sales to be the only significant indicator of market value; that the cost approach and the income approach of determining value were academic if the appraiser could produce a valuation in line with the price that a given property would bring at the time in the market; that his valuation had been made accordingly, and that he was willing to stand by it.

In reviewing REALTOR® C's appraisal, the Hearing Panel noted that he had considered Client A's property as an investment property, and had determined not only comparable market values as indicated by recent sales of similar property in similar locations, but also had fully taken into account the current reproduction cost of an investment property of similar nature; that he had capitalized the net investment return of Client A's property, and had arrived at his valuation by giving weight to all three of these basic methods of appraisal. The panel also noted that the appraisal had definitely been a factor in the city's agreement to purchase, although the city was empowered to use eminent domain action if it was judged that the owner's purchase price was excessive. Part of REALTOR® C's appraisal had commented upon relatively low current market values in the area because of adverse environmental circumstances, but balanced this with its analysis of the income return on the property to the investor.

It was concluded by the Hearing Panel that REALTOR® B had violated Article 11 of the Code of Ethics by not taking all pertinent factors affecting value into consideration in making his appraisal.