



## brokerage spotlight

# Previously prepared appraisals: Are they worth considering?

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The property appraisal is one of the most important due diligence items relied upon by lenders. Depending upon the scope of the report and the complexity of the loan or property, an appraisal can offer insight not only into value but also the market conditions of the region and neighborhood, zoning, taxation, income, expenses, property condition, etc. Ordering appraisals that provides this data in an acceptable

quality can be costly to the borrower and may impact a lender's ability to lock up the deal. Borrowers may

appraiser prior to becoming a lender.

The first places I look when review-

the subject. Doesn't anyone want to buy or rent an industrial building 60 miles from a highway exit with 12 ft.

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hope to save on this cost by having a lender accept a previously prepared appraisal completed for the benefit of the borrower or another lender.

Let's assume for this discussion that the appraisal is recent, appears at first glance to be professionally done, and is signed by an MAI. Not conforming to one of these criteria could be grounds for immediate rejection. I should mention that I spent eight years as a commercial

ing an appraisal are the sale and rent comparables. Are they recent, near the subject, of comparable size, condition, occupancy, use, utility? If not, why not? It could be that comparables were chosen to assist in supporting a pre-desired value conclusion. A less nefarious reason may be that more comparable data was unavailable. Determining which reason is vital. The unavailability of true comps may indicate a lack of marketability for

ceiling heights?

In reviewing the comparables, look carefully at the adjustments that were applied. One factor that is often inappropriately addressed is size. Every appraiser should understand that higher per unit money is paid for smaller properties. Making an adjustment for a sale of a building that is 10% smaller than the subject is correct and reasonable. What about for a 75% or greater differ-

ential? Personally, I don't feel that such a comparable should even be included. A 10,000 s/f building is different than a 100,000 s/f building in more ways than size. A local plumber may have the ability to raise the debt and equity to purchase the smaller property but the larger is marketable to a significantly different investor or user.

It's important to ascertain whether the appraiser made special assumptions in their analysis. It seems, at times, the more tenuous the argument for these assumptions, the harder it is to find mention of them in the narrative. I have seen an appraisal that assumed that 5 rent-controlled tenants would accept buyouts within a month of closing for less than \$25,000 each. I've also seen valuations assuming zoning variances and density bonuses that have no supporting documentation. In both cases, note of these assumptions was buried deep in the report.

If the loan relies upon the value of development rights or a special use, does the appraisal include a detailed zoning section? While I never rely upon the appraiser's opinion regarding complex zoning issues, their analysis can serve as a good starting point. I prefer the appraiser to base value upon what is allowed "as of right" without special assumptions regarding increasing density or variances. The same goes for real estate taxes. The appraiser should rely upon the expected taxes given the current and confidently predicted future. In any case, it is easy enough to revise the appraisal if the zoning or tax experts involved have convinced me of expected benefits.

At Park Ave. Funding we rely upon our appraisers to act as our representative as well as a check & balance against our notions of the property and borrower. Because of this, and the bridge nature of our lending, we choose our appraisers carefully with a preference to those we feel have "street smarts." We give a great deal of weight to the appraiser's initial opinion of the property and borrower. The value conclusion after detailed analysis is important but, equally important is their initial personal/professional feeling of whether the property is a safe bet. Unless the previously prepared report was done by someone we know, respect and trust, that "gut feeling" may not be available or reliable.

The cost savings to the borrower is only one consideration in the decision to accept an appraisal. Ultimately, the decision comes down to your confidence in its findings and how much weight the appraisal has to the overall due diligence.

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