

The Appraiser's Role In Your Transaction

Most of the people reading this article are experienced and respected professionals in the real estate industry. And yet, many of those same people have tremendous misunderstanding when it comes to the role of an appraiser in a real estate transaction. There's a common belief that the appraiser's role is to "make the deal happen." And yet, this flies directly in the face of the professional standards and ethics appraisers are obligated to work under. So exactly what is the appraiser's role?

Let's start by defining a few things. First, what is an appraisal? Simply put, it is an opinion of value. A professional appraisal involves extensive research into appropriate market areas; the assembly and analysis of information pertinent to a property; and the knowledge, experience and professional judgment of the appraiser. Needless to say, this is a much more detailed and difficult task for commercial and investment transactions than it is for residential. Regardless, an appraisal is an opinion based on factual events and transactions in the market.

Second, what is an appraiser? An appraiser is someone who is expected to perform valuation services competently and in a manner that is independent, impartial and objective. As you might expect, the appraiser's level of experience and knowledge in the market in which they work can have a significant impact on the competency and credibility of the appraisal results.

So what about the original question of the appraiser's role? The role of the appraiser is to provide objective, impartial and unbiased opinions about the value of real property. This is done for a variety of reasons, including:

- Estate Planning
- Retirement Planning
- Tax Planning
- Business Break-ups
- Divorce
- Business Litigation
- Bankruptcy
- Condemnation
- Expert Testimony
- Zoning Issues
- Building/Planning Issues
- Acquisition
- Assessed Valuations
- Development

In a sale transaction, the appraiser's role is most often associated with valuation of the real estate asset for a lender. This is generally a bank, pension fund, insurance company or private lender. There is a common misconception in these transactions that appraisers intentionally stay conservative or value on the "low side." However, an appraiser who is maintaining independence, impartiality and objectivity should not be swayed by the intended use of the appraisal assignment. An appraiser's knowledge and experience should assist their clients in making sound decisions with regard to real property, in a manner that is impartial to any side of the transaction.

As experienced real estate agents and brokers, it is important to understand the appraiser's role and provide the appraiser with as much information as possible about the property being appraised, as well as the market of which it is a part. I have encountered many brokers over the years who take the attitude of not providing information, under the premise of "not doing the appraiser's job." And yet, while experienced appraisers have numerous resources and contacts for market data and information, why would you take the chance that the appraiser will miss something relevant? As both an appraiser and a broker, I understand only too well the different hats I wear in a particular transaction. However, when my broker hat is on I provide the appraiser with everything I can. This isn't to sway the appraiser, but to be sure the appraiser has the same information I have.

Like many professionals, appraisers have a fiduciary responsibility to their client to provide competent professional services in a confidential manner. Because of the appraiser's role as an independent, impartial and objective analyst, the results and details of an appraisal are not made available to anyone but the client who engaged him or her. In a lending transaction, that typically means the lender. This is

true even if the inquiring parties may be a buyer, seller or broker to the transaction. Conversely, if the appraiser was engaged by an individual property owner, the results remain confidential in that business relationship as well.

Real estate sales people have an obvious incentive for a sale to close. As an appraiser, especially one who is also a broker, I certainly understand that position. Professional appraisal services serve a valid function in sale transactions in that they provide a checks and balances system for the buyer, seller, brokers and loan officers. All of these participants in the transaction have a clear motive for the sale to close, whereas the appraiser does not. The appraiser's motive is to provide a good appraisal. However it is important to keep in mind that a "good" appraisal is actually not determined by the value estimate. Rather, it is determined by the relationship between the supporting data and the value estimate. It is through this relationship that the reasonableness of the value estimate and its consistency with the market can be judged. In addition, the appraiser's ability to effectively communicate the conclusions to the lender in the transaction plays a major role, and can often be the key that makes or breaks the deal.



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