



## Members of Appraisal Institute give more than an opinion of value

May 25, 2010 - Upstate New York

The definition of an appraisal is that it is an "opinion of value." Real estate appraisers are experts in the valuation of real estate. What appraisers are not is an expert in law, environmental science, engineering, architectural, insurance, etc. However, appraisers know just enough about these fields to be dangerous. I'm only kidding! On a more serious note, qualified appraisers can alert the client to some important issues such as physical hazards, environmental, life estate, zoning, tax abatement, etc. The appraiser does not take the place of an expert in non-valuation matters. However, the appraiser can put the client on notice to hire an expert in that specific discipline. Appraisal Institute members are generally best prepared to answer these issues. The Appraisal Institute is recognized as the top appraisal organization in the world.

Almost thirty years ago, I was asked to value the diminishment to the fee simple interest due to a life estate. Reportedly, an attorney who closed the loan for the purchaser did not detect the existence of a life estate. He was responsible for the diminution of the fee simple interest value that accrued due to the life estate. The appraisal set the amount of the damages that the attorney was responsible for. Since that time, we have had a number of life estate appraisals in which lenders did not know that a life estate existed. In a few cases, we detected it by examining the deed. In one case, a new life estate was to be formed according to the purchase contract that we reviewed. The lender did not realize that their mortgage collateral would be subject to a life estate. This information proved invaluable to the lender because there were no surprises near the date of closing. In another case, the lender decided not to go forward with the loan due to a bank policy.

Almost 35 years ago, I detected a major septic system problem in a "routine" appraisal inspection. The septic system was at the extreme rear of the property and wasn't obvious. The intended use of the report was for mortgage financing. Coincidentally, the bank president was with me at the inspection. The buyer and seller then were able to make adjustments to the deal well before closing. All parties including the bank were satisfied with the result. It was a win-win situation.

It's amazing how often in new construction that property owners are unaware of benefits they are eligible for such as basic real estate tax abatements. Many appraisers are versed in the basic abatement programs and even the some of the benefits that go along with economic development zones (EDZ's). Conversely, some property owners overestimate the amount of real estate tax savings that can be made. For example, the 485b Business Investment Exemption (BIE) program structure was set up by New York State. This is a program which began in the early 1980s. However, the respective taxing jurisdictions have the option of not participating. For example, in most municipalities the county and town taxes are abated. However, there is a significant number of school districts that do not participate. Since school taxes are the largest real estate tax, the impact of the 485b BIE program is dampened substantially by the lack of participation by the school

districts.

Land size may be based upon street centerline measurements. For parcels in intense retail locations, this may alter minimum lot size or setback requirements for sites which are near some zoning threshold parameters. If detected early enough the problem may be solved in the form of design changes or other remedies. As an example, if the set back requirement is 100' and the centerline setback is 120', this is in compliance with the setback requirement. However, if the road right of way (ROW) is 60', the 30' ( $60'/2$ ) centerline adjustment for the effective setback is 90' and not in compliance. Taking it a step further, if the lot width is 100' the loss of site size is 3,000 s/f. This site size difference could put a site beneath a required threshold for development or even a continuance and/or expansion of an existing use.

Many properties in New York State are technically owned by industrial development agencies (IDA's). Reportedly, the IDA's lease the property to the user for \$1 annually and additional rent equal to the sum of the expenses of the IDA in conjunction with the subject property. Technically, this creates a leasehold interest. At the end of the lease term the user can essentially purchase the property for \$1. Although IDA ownership only represents a financial conduit, there are some legal technicalities that a lender and/or purchaser needs to know about.

Ground leases which are subordinated to mortgages can create much value to a sandwich leasehold position. A competent appraiser will be able to advise on the viability of this. Obviously, the appraiser does not take the place of an expert in non valuation matters. However, the appraiser can put the client on notice to hire an expert in that specific discipline. There are hundreds of other examples of how a competent appraiser can benefit a client more than a pure opinion of value. Your best bet in finding that competent appraiser is to hire an Appraisal Institute member.

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