



Appraisals vs. Broker Price Opinions: What's the difference? - by Ron Koenigsberg

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Are you thinking about selling your commercial property? If you answered yes, your first step is finding out the value of your commercial real estate. There are many options out there to help you

determine the value of your property such as real estate AVMs, and the more commonly known – real estate appraisals. However, another commonly used tool to determine your property's worth are Broker Price Opinions.

Broker Price Opinions (BPOs) are reports provided by an agent or broker. BPOs provide an estimated value and a suggested list price. They're usually the most helpful in determining what a property's estimated value is before a sale. While it may sound good, BPOs may not be right for you. Here is a close look at BPOs and appraisals, and what you need to know before choosing one.

The Difference Between Appraisals and BPOs

1. BPOs are completed in-house. The real estate broker and their team will complete the BPO, or property evaluation, themselves. The broker and the team apply their market knowledge, sale analytics, research tools, and local sale comps to determine the evaluation. This is typically done without visiting the subject property.

However, for an appraisal, the evaluations are often completed by a licensed third party. The appraiser will physically go out to visit the property and inspect all aspects of it including basements, meter rooms, roofs etc. This examination helps the appraiser arrive at an evaluation based on what was observed in person.

2. BPOs cost less than appraisals. BPOs are often (not always) complimentary for property owners, or those considering selling their buildings. This allows property owners to get valuable insight into their commercial properties for free, and with no obligation to sell.

On the other hand, appraisals come with a cost. Oftentimes, a hefty cost. Research shows that a person can expect to pay a minimum of \$2,000 for an appraisal, but the average cost is around \$4,000. Sometimes, large-scale commercial properties can require an appraisal amount between \$10,000 and \$25,000.

3. Appraisals have a longer average turnaround time. BPOs have a normal turnaround time of one week. Here at American Investment Properties, we can produce BPOs as early as three business days. This is due to having an organized process, strategy, and set of research tools to quickly, and accurately, provide pricing feedback. Appraisals can take over three weeks to complete. A factor that contributes to the longer process time of an appraisal is the complexity of the property being appraised. Additionally, gaining access and inspecting the site requires coordination with the tenants, owners, and/or property manager. This can add to the turnaround time significantly.

4. BPOs are best for determining a listing price. The ideal use of a BPO is to determine a property listing or sale price by a knowledgeable commercial real estate broker. However, BPOs should not be used for obtaining a mortgage, refinancing, or applying for an equity loan or line of credit. In those situations, an appraisal from a licensed third party company is the prudent choice.

More Benefits of a BPO

Above we covered ways BPOs are different to appraisals. Here are some specific benefits of our BPOs at American Investment Properties.

1. Customized marketing timeline & expectations. Our BPOs include our marketing timeline. The timeline details our marketing processes from the time we obtain the exclusive listing agreement. Our marketing processes include email marketing, listing on premium websites, physical marketing presence, digital marketing, and much more.

2. Various evaluation methods to determine your property's price. We use different evaluation methods to determine the right price for your commercial property. One method is the "Income Capitalization Approach." The "Income Capitalization Approach" analyzes the rent roll, income, and expenses to determine a Net Operating Income (NOI). Based on the NOI, our team is able to reach a target price based on market cap rate indicators. Another method is the "Price Per Square Foot Approach." This approach is typically used on vacant properties, or those that will be delivered vacant at sale. This approach simply analyzes the total building s/f, building condition, and location. Based on these details, our team is able to reach a price based on the market sale price per square foot indicators.

3. Recent sale comparables overview. Using our premium research tools, our team finds sale comparables for the property we are evaluating. Along with our "Income Approach" and "Price per s/f Approach," sale comparables are imperative to gaining realistic pricing and marketing expectations. We include photos and building info about the sale comparables, so owners easily understand how the comparable is relevant to their property.

Interested in receiving a BPO? We hope you found this article insightful. If you are thinking about selling or just curious about what your property is worth—contact us. Our team can provide you with a complimentary BPO. They are free and there is no obligation to sell or list with us.

Ron Koenigsberg is the president of American Investment Properties, Garden City, N.Y.

New York Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540