

What You Need to Know About an Appraisal

Buyers and sellers are always talking about what the property's worth. But when someone says our appraised value is xxx, what does that really mean? Where did that number come from? Who estimated that value? What is the value based on? Was it supported with Comparables Sales? Were the sales really comparable? Or unfortunately, was the Cost Approach utilized and you don't have a new property?

By definition, an appraisal is simply stated as an unbiased opinion of value. Unfortunately, most of values given are biased opinions. Buyers and sellers have opinions as to the value of a property, and these value estimates are "appraisals" per definition. But these opinions are not usually supported by comparable sale nor a knowledge or expertise of the church real estate market. Typically, an oral opinion of value is given with little or no support.

Two of the most common values quoted as appraised values, are from appraisal districts and insurance companies. Each county's appraisal district has a value assigned to each property for the purpose of assessing taxes. This value is an assessment value. It is not a market value and typically has no market data support because churches are tax exempt and are not part of the tax base for the county. Insurance companies also assign value to a property. This is an insurable value and is not a market value or the price that a church can be bought or sold for.

So you think you need an appraisal? If the purpose for an appraisal is to obtain a loan, you'll probably need a written appraisal by an MAI appraiser or state certificate general appraiser. The commercial appraiser will complete a written appraisal report and typically charge several thousands of dollars. However, it is often required before a property can be bought or sold because the buyers financing requires it. What you need to know is that the maximum amount that can be borrowed to purchase a property is based upon the estimate of value. Thus, the appraiser will typically appraise the property as high as possible.

The appraiser utilizes 3 approaches or methodologies to estimate a property's value: income, sales comparison and cost. Since churches are not sold based upon their income producing capabilities, this approach is not applicable. The sales comparison approach is based upon sales of other comparable properties. For pre-owned properties this approach should be given the most, if not, all the weight in an appraisal. The cost approach is primarily used for new properties. If a property is not new, depreciation must be estimated in this approach and can easily distort this as an indicator of value. As such, this value indicator is very aggressive and tends to be very high.

If you aren't having a property appraised for lending purposes, and you just want to know what your property's worth you may save yourself several thousands of dollars by getting a Broker's Opinion of Value (BOV) or Broker's Price Opinion (BPO). These 2 opinions of value are basically the same thing with different names, written by real estate brokers. Typically, it is a one page letter stating a value or value range. However, the value estimate or range is only as

good as the broker who estimated it, based upon their research of comparable sales, and their knowledge and expertise of the church real estate market.

Recommendations:

If you have already had a written appraisal by an appraiser, I recommend that you read it carefully and review the value estimate. Conclude if the value estimate was primarily based upon the sales comparison approach or cost approach. If it's based on the cost approach and your church is more than a couple years old then you need to realize that this value is based upon an estimation of depreciation which can distort it as an indicator as to what your property can actually be bought or sold for.

Secondly, I recommend that you review the specific comparable sales in the report, analyze them yourself, and ask yourself are these comparable sales chosen, truly comparable to your facility. Generally, Dallas County properties have higher "values/prices" than Tarrant County properties. Facilities that seat 300 aren't really comparable to a facility that seats 750. If one church does not have sufficient parking and your property does, how does that affect value? Did the appraiser account for this difference accurately? A 5 year old property with 30,000 SF that has numerous classrooms and a gym is not necessarily comparable to another 30,000 SF property, that doesn't have a numerous classrooms and a gym. These differences and several others make estimating the value of churches very difficult.

Finally, keep in mind that since banks and financial institutions base the buyers maximum loan amount on a percentage of the appraised value or sale price, appraisers have a tendency to appraise the property as high as possible. However, when church sellers then try to sell their properties for such inflated values, a realization occasionally occurs that maybe the appraiser's value conclusion is an over-inflated value and not truly what the property can be bought or sold for.

Conclusion:

Keep in mind that agents, appraisers, buyers, church members, "everyone" has an opinion as to what a property's worth, but only a ready, willing and able buyer and educated seller can truly determine a property's worth. Estimating the true value of a church should be done with the assistance of a Church Real Estate Professional. The marketing, buying and selling of churches is a specialized area of real estate. It is my opinion that our company is the most qualified to assist in the process. If I or any of the Service Realty team can ever be of service, we're here for you and your ministry.

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