

The Case for MARKET VALUE



Representing both public and private interests in voluntary government transactions

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While the purpose of an appraisal is to develop an opinion of value, in the case of government transactions, the one that is most often sought is market value. Market value is the go-to value used by the overwhelming majority of the private sector when real property is at issue, and it is the standard for doing business in the United States.

The reason market value is helpful as a valuation standard is because the determination of value is made in an impersonal market where private relationships should have no leverage. With market value as a target, the goal is to identify that point where the tension of supply and of demand intersects to make a sale in the marketplace. Comparable data used in appraisals must be “arm’s length.” Ironically, it is the impersonality of the market that engenders a feeling of trust by the market participants.

Clearly, a buyer and seller are at diametrically opposed positions from the start. One wants to pay the least while the other wants to receive the most. It is only an unbiased

set of facts and opinions that can bring the divergent parties into a meeting of the minds and effectuate a new market transaction. Perhaps this is the same reason, despite reams of real estate data now available online for free, that real estate agents continue to add value for their clients in real estate transactions. A proxy helps buyers and sellers keep the personal issues out of negotiations to get to commitment.

It follows that legislators choose to use market value or fair market value (considered synonymous in this article) in representing their constituents and the public when government transactions occur. The public—meaning distinctly one side of the government transaction—needs representation just as the private side of the transaction does. Clearly, the public is an interested party to government transactions, and using a market value litmus test protects public interests.

The Uniform Appraisal Standards for Federal Land Acquisitions are staunchly supportive of using market value as the standard. Federal



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standards specifically exclude consideration to be given to the owner for any special value of the property that is not reflected in market value. In fact, market value has always been the standard as established by the Supreme Court over 100 years ago.

In practice however, when appraising government transactions, sometimes a strict adherence to the market value definition waivers and definitions of “use value” or “public use value” sneak into the analysis. According to *The Appraisal of Real Estate*, “In stark contrast to market value... use value is the value a specific property has for a specific use. In estimating use value, an appraiser focuses on the value the real estate contributes to the enterprise of which it is a part or the use to which it is devoted, without regard to the highest and best use of the property or the monetary amount that might be realized from its [market] sale. The analysis of public interest value tends to be driven by social, political, and public policy goals rather than economic principles.”

Neither use value nor public use value is focused exclusively on the market, so both are clearly inappropriate as a substitute for market value. The lack of clear standards and the potential for bias presents major difficulties for using either definition. Use value or public use valuation is highly subjective, could be arbitrary and can be easily influenced by relationships. By contrast, market value is theoretically able to be repeated by others in future analyses.

For all of these reasons, an unwavering commitment to seeking true market value needs to be the foundation for formulating a credible appraisal from beginning to end. As such, an appraisal offers great utility to many, from selling a house, buying a commercial building, settling an estate, separating joint assets or any number of purposes we encounter during the course of our lives.

As appraisers, we follow the Uniform Standards of Professional Appraisal Practice and are trained to be unbiased market professionals who strive to produce credible appraisals. Using market value as the guide does just that. ☺

References

The Appraisal of Real Estate, 14th ed. Chicago, IL: Appraisal Institute, 2013.

Uniform Appraisal Standards for Federal Land Acquisitions quoting *United States v. 50 Acres of Land*, 469 U.S. 24, 35 (1984).

Uniform Appraisal Standards for Federal Land Acquisitions quoting *United States v. 564.54 Acres of Land*, 441 U.S. 506, 511 (1979) and *Boom Company v. Patterson*, 98 U.S. 403, 408 (1878).

CLARIFYING MARKET VALUE

The Uniform Standards of Professional Appraisal Practices does not specify a definition for market value. However, at the Michigan Department of Natural Resources, where transactions are voluntary, it is defined as follows:

The most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress.

The Uniform Appraisal Standards for Federal Land Acquisitions (Yellow Book) definition is as follows:

Market value is the amount in cash, or on terms reasonably equivalent to cash, for which in all probability the property would have sold on the effective date of the appraisal, after a reasonable exposure time on the open competitive market, from a willing and reasonably knowledgeable seller to a willing and reasonably knowledgeable buyer, with neither acting under any compulsion to buy or sell, giving due consideration to all available economic uses of the property at the time of the appraisal.