# Maslow's Hierarchy of Needs and the Appraisal Process

By David R. Lewis, SR/WA, ASA

In IRWA's book, *Communication and Negotiation* (Pyron, 1982 pp. 113-115 ) there is a reference to Maslow's "Hierarchy of Needs" in a discussion of human motivation. Clearly, the negotiation process involves an analysis of individual needs. Understanding what motivates individuals is essential for the negotiation process. The insights Maslow offers are also applicable in the appraisal process where the collective needs of the market require analysis in relation to the hierarchy of needs.

When needs change the perceptions of the individual and group often change. The ultimate purpose of the appraisal is to inform and to develop an opinion of value. To have value there must be utility, scarcity, effective demand and transferability. In appraisals, Maslow's analysis of human behavior enters into primarily the effective demand aspects of value. Therefore, appraisers must consider the economic activities as they relate the hierarchy of needs in a market sense. Collective choices are being made based on satisfying the immediate needs. The interaction of individuals making choices creates market forces that the appraiser must recognize, describe and analyze.

Perceptions, whether they are based on reality or not, are powerful factors and can influence property values if the collective perceptions have a popular following. In other words, collective knowledge can and does influence value in the creation of markets. On the other side, appraisers need to understand and analyze the collective perceptions so as not to develop less than reliable value conclusion. Just as individual needs vary, there is no single market in real estate. Rather, there is any number of markets and sub markets and they are distinct and measurable. Appraisers need to identify the various markets and determine what real property characteristics are important in each market. House size, number of bedrooms, lot size, etc. have different priorities depending on the needs and characteristics of the community. Therefore, identification of the market will essentially determine the appropriate data to be used to develop a value conclusion.

Early in my appraisal career, I was given an assignment to appraise a local government agency's surplus property located in a low-income neighborhood. My initial reaction, which was based on middle-class perceptions, was that the residence suffered substantial physical and functional obsolescence. However, a careful analysis revealed that the market segment did not view the obsolescence as my initial observation. The sales

comparison analysis proved that there was substantial value notwithstanding the appearance.

On another assignment, I was commissioned to do a senior appraisal review of an appraisal of a small segment of an abandoned railroad right of way. The right of way would be developed into a pedestrian path that would connect two communities. This small segment was only one of several right of way segments that required acquisition because the majority of the right of way was in fee ownership when the railroad sold it to a local governmental agency. The most reliable approach to produce a value conclusion was an over the fence analysis.

The value conclusion of the appraiser did not include any discounting of the base land value. When adding increments of land, as with over the fence valuation problems, the principle of variable proportions must be considered. The issue for appraisers is whether or not adding increments of land to an existing lot increases the value at the same unit value. Does the additional land increase the value but at a decreasing rate or is the opposite true? Unfortunately, the appraisal did not have an adequate analysis of the rural neighborhood. According to the census data, the neighborhood had one of the largest family sizes and a below average family income. Essentially, there was limited motivation to increase the size of the adjoining lots. Therefore, substantial discounting would be appropriate.

Another area where the hierarchy of needs is a factor regarding proximity damages, is analysis of severance damages. Strip acquisitions, where roads are widened, are a common appraisal problem that nearly all appraisers who do right-of-way assignments are involved in. The typical tool to measure severance damages is the matched-paired sales analysis. Rental information can also be used.

Determining if severance damages occur in road widening projects is time consuming at best and usually difficult. Using data from other neighborhoods and communities from other assignments is quite often a common practice. However, the appraiser is responsible for measuring market activity. Therefore, the available data will determine the appraisal model used to measure the market.

For a local project in Sonoma County, Ray Mattison, ASA, was retained to do an appraisal for a road–widening project in a low-income neighborhood. Yards were being reduced from 20 feet to approximately 15 feet or less. He determined that there was no evidence to demonstrate severance damages as a result of the project. The analysis was clear and persuasive. Conversely, in higher income neighborhoods, severance damages from proximity of roads were measurable.

Landscaping is also a problematic area for appraisers. Paired sales analysis has, at best, limited applicability in valuing landscaping for strip acquisitions. Typically, landscaping is planted adjacent to the frontage to define and separate the private and public spaces.

It is common for landscaping values to exceed land values. Nonetheless, California state law requires payment for the part taken in determining just compensation. Replacement/reproduction method of valuating improvements is considered appropriate especially when all elements of production are in balance. However, it is imperative for the appraiser to consider how the particular market views the importance of the yard improvements. Uniformity, entry statement and pride of ownership are significant indicators of value.

Markets exist when there are transactions and the typical purchaser creates the market. Understanding the collective purchaser in terms of Maslow's "Hierarchy of Needs" will aid in the appraisal process. ■

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