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# The Mysterious V(alue) Continued: Intrinsic Vs. Perceived

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*This is a supplement to an article written by Mr. Procida in 2004 entitled "Distressed Assets and the Mysterious V(alue)." The article was widely printed in publications such as Real Estate Weekly.*

Property value is an elusive and erratic subject. Under semi-normal market conditions, (I have to say semi because in 28 years I haven't seen much of normal) a property value based on an MAI appraisal can vary 20-30%.

This variation is based on a few simple theories: no two properties are alike; their condition, layout and location are all specific. Therefore, an appraiser must make value adds or deducts which are subjective and, you guessed it, no two appraisals are alike.

Further, completed values or renovations on new construction projects can have even higher value variances not based on the appraisal's context as much as who is implementing the renovation or new construction. These issues are applicable in all times, however today we need to look at another issue.

Intrinsic vs. Perceived

Simply put, an appraisal is a best guess of value based on comparable sales over the last 90 days or so. However this does not tell the true story. As we have clearly seen, liquidity – the availability or lack thereof – plays a critical role in the actual sales price of a property. The values of all asset classes in 2003 to 2006 were greatly exaggerated due to an abundance of high loan to value cheap debt. The converse is true to today. The lack of available debt is causing an exaggerated decline in value.

> "Things were never as good as they were in 2003 to 2006, and they are equally not as bad now."

The problem for many is that value is based on an appraisal that looks at the recent sales of comparable value without regard to the debt market. This issue is causing havoc between lenders and regulators as well as borrowers and their lenders. Regulators should keep this in mind and banks as well. If we are to market all real estate based on recent sales in an illiquid market every bank will hemorrhage and every borrower will be out of the balance and in default.

We must remember, things were never as good as they were in 2003 to 2006, and they are equally not as bad now.

Perhaps an approach you may feel comfortable with could be as follows. Pick a year or series of years that the market plus debt (prices) in your area felt reasonable (not too cheap, not too expensive). For me, in the New York Tri-state area, that would be 1996 through 1998. Take that average value. Then add to it an annual increase in value that is closer to the CPI as opposed to the actual 10-30% increase caused by irrational debt availability.

This approach will at least give you a different perspective versus the last 90 days. If you do not like the increase, then go back to 2002 before sub-prime got completely out of control and look at that value without an adjustment increase.

For those of you on the sidelines with capital, this is definitely a time to get off the bench and get in the game. However, remember that value is something you know in your gut based on experience. If you don't have it, get a partner who does. If you do have it, by all means start bidding.

An important note to lenders and their regulators; don't be mislead – value has taken a hit, it's just not as bad as it seems. Once you have experienced buyers buying right and experienced lenders lending right, we'll all be just fine.