

# How much is a broker's opinion worth?

by Carlton Smith  
for the Tundra Times

Earlier in the year, a client asked for help to determine the value of a small income property in a Southcentral area community, and asked, "How can I locate an appraiser to help me determine the value of my building?"

The need to find out how much a property is worth is often driven by either a need to settle a legal issue, as in the case of a company valuing its assets, or in the case of a divorce settlement.

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### OPINION

Often, however, values must be determined for lenders before they are willing to finance the purchase of a property that is being sold.

There are two basic methods for determining value of property, each with its own advantages and disadvantages to the parties that may employ them. These methods are the "brokers' opinion of value" and the more conventional appraisal method.

A broker's opinion of value is exactly that — it consists of an organized way that a licensed real estate broker will look at the value of a parcel or improved property in a particular area. It is often used as a more informal method for a seller to get a preliminary idea of the value of his property before he makes the decision to sell a property.

In this process, the broker or his designated employee will compare the seller's property with others both on the market for sale now and recently sold to determine the value range of the owner's property.

This process depends very strongly upon the information about sold properties rather than those on the market now, and while it is not the same as an appraisal, much of the comparison method is the same as an appraiser would use to determine the value of a property.

Advantages to a broker's opinion or "BOV" as it is called, are its substantially more modest cost as compared with an appraisal, the fact that it can be completed usually in a quicker time frame than an appraisal, and it can be used in select court proceedings where ordinarily an appraisal is used.

It can also give the seller or prospective seller an idea of the services he might receive from a broker before engaging him to market his property actively.

The disadvantages to a BOV include the fact that it cannot be used by a buyer to obtain a loan commitment. It can present some potential conflicts of interest for a broker who may eventually market the property.

Because the BOV is generally completed for a seller at the expense of the seller, it cannot be successfully used as a measure of value between buyer and seller when they wish to settle on a value which is determined by a third party.

A BOV as produced for a seller does not take into account how the buyer feels about the value of the property at all.

Keep in mind that many agents advertise a "Free Market Analysis" for your property, which, in effect is a more casual way of saying BOV.

However, there is a difference.

A market analysis is most often prepared by a salesperson, not a broker or associate broker. Many times salespersons use these reports to help them obtain listings, which is common industry practice.

Institutions and mortgage insurance companies, however, generally require that broker's opinions of value be more substantial, including in-depth data on how the value was determined.

In the end, if you choose to obtain a broker's opinion of value, be prepared to spend anywhere from \$100 to \$225 depending on the content that the broker provides you.

A "Free Market Analysis" may reflect free advice worth a great measure less when you consider the scale of your initial or proposed investment.

An appraisal is a formal report prepared by a third party, whose services are most often paid for by a seller, with the results used by a lender to substantiate the value that is being proposed in the new loan for the purchaser.

Using what is called the comparative sales approach or market approach, the appraiser builds a factual case for the price that is arrived at between the buyer and the seller by finding recent sales of similar properties (usually within the last six months) and making comparisons and "adjustments" up or down for the features, location and condition of the property being appraised.

A current appraisal report can be used by most lenders.



Some disadvantages to an appraisal include the fact that it becomes dated in a few months time and may have to be redone. It is comparatively expensive, ranging in price for a duplex property at \$500 to several hundred dollars for larger multi-family units.

There are other options in work with appraisers, however. They sometimes can offer verbal opinions of value only, which usually range from \$250 to \$300 to a written letter of opinion format where a range of value is presented without the written back-up documentation enclosed for a cost that is usually less than a conventional appraisal.

Most appraisers and brokers will charge a per diem rate plus transportation, meals and lodging for work completed outside of their home locations.

When determining value of a property is the question and you are unsure about the best method to use, the selection of the appropriate professional to assist can either save you time and money, or it can potentially cost you unnecessary expense.

A typical example of this would be a seller who decides to sell his income property, orders an appraisal to help him get an "idea" of its worth. In this example, he may pay \$600 for the appraisal, plus an estimated \$400 in transportation and per diem costs.

He may then list the property with a broker, complete a sale with a purchaser and be required by the lender to pay for another appraisal (this time ordered by the lender) and be hit with the same fees again!

A BOV may be the logical first step in this example, saving the seller several hundred dollars.

Brokers are expected to improve their BOV quality and overall content, and to openly counsel their sellers when it is their interest to obtain an appraisal report rather than a BOV.

How much is it worth? That will be the key real estate question for some time, with appraisers and brokers fulfilling their proper roles.

In order to obtain the service you really need, it is important to know the functions and key advantages to using either method for coming up with answers to questions about value.

*Carlton Smith is a real estate agent in Anchorage. He also serves on the Sealaska Corp. Board of Directors.*