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CASE SUMMARY

Spring-2010-06

Facts:

The Member completed a standard residential form appraisal report co-signed by an AACI Member.

The property is zoned commercial rather than residential. The purpose of the assignment was noted to be to estimate market value of the subject property “as if” converted back to residential use.

Issue:

The report indicated that the existing use of the property was residential which was not correct. The report did contain limited observations that indicated that the report was hypothetical in nature; however, no reference was made to extraordinary limiting conditions. The report does not use the terminology “hypothetical” market value estimate and does not clearly set out requisite extraordinary limiting conditions that would be necessary to estimate market value “as if” converted back for residential use.

Because the Member has been suspended, a hearing was requisitioned in order that the Adjudicating Committee could determine a final decision regarding the file, which would then be placed on the Member’s record. Should the Member apply for re-instatement at a later date, he will first have to meet any conditions in the final decision before re-instatement.

Holding:

After a thorough review of all the evidence, the Adjudicating Committee has decided that the most appropriate discipline to be imposed is as follows:

- a) Completion of CPD 105 – Highest and Best Use Analysis
- b) Peer Review of two (2) residential appraisal reports

Total costs in the amount of \$1,500.00 have been awarded

Reasoning:

The Member failed to clearly identify that the purpose of the appraisal was to estimate market value based on residential use, which was not the present use, and was in fact hypothetical in nature. The lack of extraordinary limiting conditions and assumptions left the reader unable to determine what would be required to convert the improvements to residential use, as well as the estimated cost to do so.

The basis of the value estimate is hypothetical in nature, and the Member had a clear duty to invoke extraordinary limiting conditions and



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assumptions with respect to the fact the subject improvements were not suitable for residential use at the time of the appraisal, and were in fact being used for commercial purposes. The Member failed to explain in detail what was required, logically estimate the cost and adjust the value accordingly.

The Member states incorrectly on the first page of the appraisal that the existing use is residential and the owner occupies the improvements.

The Member did not adjust in either the Direct Comparison Approach or Cost Approach for the hypothetical cost of renovations which would be necessary for residential use.

The Member stated in the appraisal that the Highest and Best Use was “as improved”. Since the property was under use as a commercial property, it was necessary to clearly explain (using extraordinary assumptions and limiting conditions), that notwithstanding the fact the current use was the Highest and Best Use, the purpose of the appraisal was to estimate the hypothetical market value based on residential use.

Relevant CUSPAP:

Appraisal Standard 3, 10, 11, 13, 14, and 25

Related Claims Prevention Bulletin:

PP-02A- Reducing the Risk of Litigation – A Primer
PP-12- “As if Complete”