



Power up your practice:

how to diversify into machinery and equipment valuations

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As Canadian Residential Appraisers (CRA®), we have traditionally focused on real property financing assignments. However, there are many opportunities for diversification and growth for CRA designated appraisers. The dynamic field of machinery and equipment (M&E) appraisals opens the door to new revenue streams. In today's market, businesses across industries require accurate appraisals for their machinery and equipment for purposes such as financing, insurance, tax reporting, and litigation. M&E appraisal is a valuable service and can become a complement to your existing practice.

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WHY DIVERSIFY INTO M&E APPRAISAL?

The demand for M&E appraisal services is growing. Consider the following scenarios where businesses and individuals require professional appraisals:

1. Financing and leasing:

Lenders often require appraisals to assess the collateral value of machinery.

2. Mergers and acquisitions:

Accurate M&E valuations are critical during buyouts or mergers to establish fair market value.



3. Tax and accounting compliance:

Businesses need appraisals to comply with regulations regarding depreciation and asset reporting.

4. Insurance:

Replacement cost appraisals help companies ensure adequate coverage for machinery and equipment.

5. Litigation and dispute resolution:

Appraisals are often necessary for resolving disputes over ownership, damages, or contractual issues.

UNDERSTANDING M&E APPRAISAL BASICS

Machinery and equipment can include a wide range of assets, such as standard office assets like printers and computers; specialized industrial equipment such as CNC machines and medical devices; manufacturing, industrial and agricultural machinery; and aircraft, including airplanes and helicopters. In this field, appraisers must understand the differences of each type of asset, including its purpose, functionality, and market demand. It is expected that the appraiser is competent and knowledgeable about the assets being valued. Therefore, the appraiser must be dedicated to learning and training to develop the expertise to diversify into machinery and equipment valuations.

HERE ARE THE CORE COMPONENTS OF M&E APPRAISAL:

1. Define the problem:

- Determine who is your client, who are the authorized users, what is the purpose of the report, what is your effective dates
- What assumptions and limiting conditions will be required.

2. Determine the scope of work:

- What is being appraised
- What will you be doing and/or not doing

3. Identification and inspection:

- Proper identification of the asset is critical. This involves documenting make, model, serial number, and specifications.

- Physical inspection allows the appraiser to assess condition, maintenance history, and any modifications.

4. Analyze the data:

- Research and analyze the market data, machinery research and comparables.
- Analyze supply and demand and highest and best use (this is usually its current use).

5. Determining value:

Appraisers typically rely on one or more of the following approaches:

- *Cost Approach*: This involves calculating the cost of replacing the asset, less depreciation. It is often challenging to determine the remaining useful life (RUL) due to depreciation. It is an effective method when your asset is very unique and no comparables are available.
- *Direct Comparison Approach*: Analyzing comparable sales of similar assets provides insights into market value. Comparables can be located from auction sales, dealer sales, market sales, etc.
- *Income Approach*: This approach assesses the asset's ability to generate income over its useful life. You must be provided with all the income information on the asset to complete this approach. This is challenging as it can sometimes be difficult to determine the income being generated from one asset.

6. Reconcile to a value:

- This may involve a value or a value range.
- The *Canadian Uniform Standards of Professional Appraisal Practice (CUSPAP)* Standards and Ethics:
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7. CUSPAP and ethics:

- Follow your *CUSPAP* Standards and Ethics and understand the Machinery & Equipment Standards.
- Be knowledgeable and competent.

BUILDING THE EXPERTISE

By investing in yourself, you will receive appraisal requests. Transitioning into M&E appraisal requires both training and a commitment to learning. Here are the steps to get started:

1. Education and certification:

- Take CPD 118: Machinery & Equipment Valuations offered through UBC. (sauder.ubc.ca/programs/real-estate)
- Consider enrolling with the American Society of Appraisers (ASA). These programs provide comprehensive training in M&E valuation. (appraisers.org)
- Pursue credentials such as Accredited Member of ASA with a Specialty in Machinery & Technical Specialties.

2. Industry knowledge:

- Stay informed about industries that heavily rely on machinery, such as manufacturing, healthcare, agriculture, and construction.
- Understand emerging trends, like automation and sustainability, that may impact the value of equipment.

3. Networking:

- Join industry groups and attend conferences to connect with other professionals.
- Collaborate with specialists, such as engineers or equipment dealers, to deepen your understanding of specific asset types.

4. Hands-on experience:

- Partner with experienced M&E appraisers for mentorship.
- Volunteer for small projects to build your confidence and expertise.

PRACTICAL CHALLENGES AND HOW TO OVERCOME THEM

While M&E appraisal is rewarding, it is not without its challenges. Here are some common obstacles and strategies to address them:

1. Specialized knowledge:

- *Challenge*: Each type of equipment has unique features and market dynamics.



- *Solution:* Invest time in continuous learning and seek expertise in a niche, such as medical or construction equipment, to build a strong foundation.

2. Access to market data:

- *Challenge:* Finding reliable comparables can be difficult, especially for custom or rare machinery.
- *Solution:* Develop relationships with dealers, auction houses, and industry publications to access market insights.

3. Complex valuation scenarios:

- *Challenge:* Certain assignments may involve damaged, obsolete, or partially functional equipment.
- *Solution:* Consult with specialists, use appropriate valuation techniques, and clearly document your methodology.

4. CUSPAP compliance:

- *Challenge:* Meeting the competency component of CUSPAP.
- *Solution:* Engage the assistance of an appraiser who is competent.

If an Accredited Appraiser Canadian Institute (AACI®) is providing an assignment that also includes a valuation of machinery and equipment, and the AACI is not competent in these assets, under CUSPAP, the AACI is to have a competent AIC Member to complete the valuation of the M&E to include in their report.

TECHNOLOGY AND TOOLS FOR M&E APPRAISAL

Modern technology plays a crucial role in streamlining M&E appraisals. Familiarize yourself with these tools to enhance accuracy and efficiency:

1. Data management software:

Platforms like EquipNet or AssetSmart provide access to extensive databases for equipment sales and valuations.

2. Inspection tools:

High-quality cameras, drones, or

handheld diagnostic devices can help you conduct thorough inspections.

3. Valuation software:

Use programs and searches to assist in analyzing market data and calculating values.

4. Report writing tools:

Use software platforms to produce professional, compliant appraisal reports.

MARKETING YOUR M&E APPRAISAL SERVICES

Once you have the necessary expertise, it is time to market your services. Highlight your new capabilities to existing clients and reach out to potential clients in industries that rely heavily on machinery. Here are some strategies:

1. Leverage your network:

Inform existing clients, especially those in commercial real estate or insurance, about your expanded services.

2. Targeted outreach:

Reach out to manufacturers, lenders, and law firms that frequently require M&E appraisals.

3. Content marketing:

Share your expertise through blog posts, webinars, or social media content. For example, you could write about “Top Mistakes to Avoid When Valuing Industrial Machinery.”

4. Partnerships: Collaborate with equipment dealers or auctioneers who can refer clients to you.

CONCLUSION

Appraising machinery and equipment is a challenging yet rewarding field that allows appraisers to diversify their work and tap into lucrative markets. By mastering the necessary skills, understanding market dynamics, and leveraging modern tools, you can position yourself as a trusted expert in this niche. As the demand for qualified M&E appraisers grows, embracing this specialization will not only enhance your professional value but also provide an exciting new avenue for diversification and revenue stream. 📈

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