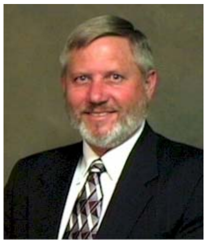

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Superadequacy: Too Nice for Its Own Good

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Sometimes a property can be too nice for its own good – when this occurs, it is called a superadequacy. Superadequacy is defined in The Appraisal of Real Estate, 12th Edition as "an excess in the capacity or quality of a structure or structural component; determined by market standards." There are times when superadequacy is an important aspect to be considered in an appraisal assignment – and times when the concept is not at all applicable. Being able to determine when the improvements on a property suffer from superadequacy is an integral part of the appraisal process when considering improvements which are superior to those that are considered to be "typical" in a given market. Of course, not all properties with such improvements suffer from superadequacy. Part of being "competent" to perform an appraisal is being familiar with the market area, and knowing if other such improvements exist in the area. This knowledge can be gleaned from discussions with active market participants, discussions with county or city officials, familiarizing oneself with the market area, contacting contractors and builders to establish if such improvements exist, or even talking with the property owner to see if they know of any other improvements which are similar or superior within the market area.

The following is an example where superadequacy is applicable. A few years ago, we performed an appraisal of a large ranch property in a rural area of Oregon for a lender. This property was improved with a residence that was custom built to a very high standard, as desired by the property owner. The residence was built with the idea of being as "green" and energy efficient as possible, and the property owner spent thousands of dollars to do so. When we were performing our market investigations of the area; we spoke with multiple brokers, the county assessor, and the property owner in order to establish whether or not the property suffered from superadequacy. Everyone we spoke with regarded the subject property as unique – it was clear that there were no other homes within the entire area that were in any way similar to the subject. The property was well and truly unique, and far outside the norm of what the typical buyer in the area would expect or find desirable. This market research was supported though the appraisal process. The value indicated by the cost approach far exceeded the value indicated by both the sales comparison approach and the income approach. In this case, as the subject suffered from superadequacy, we made an adjustment to the property to take into account that the contributory value of the excessive attributes of the residence was marginalized by the norm within the market.

Recently, we were asked to perform an appraisal assignment for another property located in a rural area in eastern Oregon. This assignment was for potential litigation purposes, and as such part of this assignment was providing a review of the appraisal performed by the opposing counsel's expert. When we performed our analysis of the property, a farm with improvements that exceeded the "typical" improvements in the area, we considered the possibility that superadequacy might exist. However, in our market research we determined that the property, while significantly superior to many of the properties in the area, was not unique. Other residences of similar quality existed. One had even sold recently, albeit under market value. Regardless, after our discussions with active market participants, and due to our familiarity with the area, we did not feel that the subject suffered from superadequacy and, naturally, did not make any adjustments in that regard. The opposing counsel's expert, on the other hand, did. In this case, we felt that the other appraiser had made an error, due to the presence of other properties of similar quality to the subject. The other appraiser had even used the recent sale of a property with improvements at least equal to that of the subject property, and still made his determination. We considered his reasoning and found his arguments to be flawed and not supported. Essentially, we determined that the appraiser was either not competent to appraise properties such as the subject in this case within the market area, or perhaps stepped outside of ethical bounds to best serve the needs of his client.

Superadequacy certainly exists – but the application of this concept can be very difficult. Knowing when a property is unique, and whether or not the unique nature of the improvements limits the value of the property in a given market area is not an easy task. Making sure an appraiser is competent within the market area, or is capable of becoming so, is an important consideration when choosing an appraiser for properties that are not “typical”.

Valuations play a part in all strategic transactions, tax, and many litigation matters. For additional information or advice on a current situation, please do not hesitate to call. **We value real estate, businesses, and personal property including livestock and machinery & equipment.**

Sincerely,

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