MARKET STUDY REQUIREMENTS AND GUIDELINES

- A market study is defined as an analysis of the market conditions of supply, demand, and pricing for a specific property type in a specific area. Source: The Dictionary of Real Estate Appraisal, 6th Edition, 2015, Appraisal Institute, Chicago, Ill, p. 140.
- A market study is a macroeconomic analysis that examines the general market conditions of supply, demand, and pricing or the demographics of demand for a specific area or property type. Source: The Appraisal of Real Estate, 14th Edition, 2013, Appraisal Institute, Chicago, Ill, p. 300.
- A market study is allowed under USPAP (see Advisory Opinion 21) as an "other" valuation service. Standards 1, 2, record keeping rule, and scope of work rule do not apply. The ethics, competency, and jurisdictional exception rules do apply. A certification is not required as Standard 2 is not applicable.
- A market study examines a specific area and specific property type or use and not an individual property. It may include General Characteristics of the Area, Analysis of Inventory, and Analysis of Area’s Economic Base.
- All interpretations of the data should be based on descriptive statistics. If an opinion is made regarding the selection of sales or market value, the Market Study may be considered an appraisal.
- Be specific in defining the search criteria for the sales data. Once the search criteria are defined, if the target number of transactions is not within an appropriate sample size, either increase or decrease the search parameters to get the appropriate sample size.
- The report format at a minimum is to include a discussion of scope of work (purpose of the study, intended user, intended use, inspection, type and extent of market data used) and market study data analysis (discuss data used, market trends, sales summary grids, and sales characteristics and summary for the area).
- The addendum, at a minimum, requires a market study area map, sales location map, sale and listing support data, appraiser qualifications and the 633ES (Real Estate Services Assignment Proposal and Fee Estimate). The depth of confirmation and reporting requirements for the sales may vary for individual assignments and will be outlined in the 633ES as part of the scope of work.

The following paragraph, or similar in content, is required within the Market Study.

A market study (a.k.a. waiver valuation) is an appraisal service under the Uniform Standards of Appraisal Practice (USPAP). The scope of the assignment is such that development and reporting of the market study is not covered under specific performance standards of USPAP, i.e., Standard 1 and Standard 2. However, the Ethics Rule, Competency Rule and Jurisdictional Exception Rule of USPAP do apply. In addition, this market study complies with the Uniform Relocation Assistance and Real Property Acquisitions Policies Act (the Uniform Act) - Common Rule – 49 CFR Part 24. The intent of the assignment and scope of work is to provide a credible narrative report within the context of its intended user and limited intended use.

Typical steps of a Market Study are as follows:

- Step 1 – Define the specific area of study; area where the study is used/needed
- Step 2 – Define the specific property type; based on highest & best use and/or zoning
- Step 3 – Define the typical site size for the specific use in the area (a typical larger parcel)
- Step 4 – Define similar area(s) for sales and current listings
- Step 5 – Define range of sale dates; start with the last 2 or 3 years
- Step 6 – Define appropriate number of sales and/or listings for the sample size (for each property type); for example, 5 to 10 sales. If this sample size is not met, then expand or decrease the search parameters to get an appropriate number of transactions. First try change the range of sale dates. If sales older (example 4 or 5 years old), expand another search parameter instead. Note: Sales should not be removed from the study unless they are a non-arm’s length transaction, etc. or found to be of a different use than the study.
• Step 7 – The only adjustments are transactional adjustments (real property rights, financing terms, conditions of sale, expenditures made immediately after purchase, market conditions) and should be supported by data in the report and/or the work file. No property adjustments (location, physical, economic and legal characteristics and non-realty components) are made. The sales then can be presented in a summary format that indicates the unit price for each sale.

• Step 8 – Use the descriptive statistics to describe the sale prices of the sale data. Descriptive statistics include minimum, maximum, mean, median, standard deviation, coefficient of variation (COV), coefficient of dispersion (COD), etc. A range of the sale prices can be made using the average sale price and standard deviation.

• Based on the above guidelines the resulting report would not be considered an appraisal report and thereby may be signed by a Limited Licensed appraiser without a Supervisory Appraiser also signing the report if MDOT has made the assignment available to a Limited Licensed Appraiser.

While not stating the exact qualifications required to prepare waiver valuations, the regulations state that the preparer must have knowledge and an understanding of the local real estate market. This clearly indicates that non-appraisers may prepare the waiver valuations.

• The provisions of the conflict of interest regulation state that the person performing a waiver valuation shall not have any interest in the real property for which the waiver valuation will assist in setting the Estimated Just Compensation. Additionally, no person shall attempt to unduly influence or coerce a waiver valuation preparer regarding any aspect of a waiver valuation. Lastly, the provisions also state that dual roles, in the acquisition process, are allowed when value is $10,000 or less.

• A formal review of the Market Study report is not required.