



# Amerival Realty & Valuation

**FEBRUARY 1, 2017**  
Issue 242

**Director Of Operations:**  
Albert M. Cerone  
**Regional Realty Associates:**  
Dan Warthen, Jr.  
Jay Jurasek  
Dave Kaytes  
Peter R. Vidi  
Louis A. Bonato  
James Hanson  
**Associate Professionals:**  
Michael Cannon, P.E.  
Bob McCook

## **MISCONCEPTION OF VALUES**

BY  
**Albert M. Cerone, IFAS, FELLOW, CTA**

**Of Counsel:**  
Michael C. Paxton, Esq.

**KNOW THESE?-** Here are some terms which you may not be familiar. Give them some thought and you will find the understandings toward the end of this edition of the Newsletter.

**Absolute Priority Rule    Working Capital    Block Busting**

*Please don't miss the **Professional of the Edition** on the following page.*

**HOW \$\$\$\$ IS THE WHITE HOUSE WORTH?-** According to Zillow, the White House is worth \$397.9 million. They arrived at this number via a proprietary (that means it's theirs and no one else knows what it is) algorithm. They first calculated the value in 2009. During the Obama years it gained 15% in value. Then with aplomb, at least in its mind, it attached the increase based on the rise in home values in the United States during Obama's term. There is no corollary between the two values. The White House is an Historic Icon of the United States. Some time back it was said that there was an appraiser who specialized in the valuation of castles in Europe. Then, there may have been sales of other castles available. However, it was stated that the methodology was really an Engineering Method for costing the castles. It had to be done using the same methods and technology used in the design and construction when first constructed. Using modern day methods would entail creating a *replacement cost method, not a reproduction cost*. As there only one White House, the former methodology would best serve the need for insurable value. The latter is for present value in case we decide to sell it. Now, if this is what Zillow did, then just tell us and go into the contrivance of machinations to tell us it's worth \$397.9. Now, there is another problem with Zillow's self serving back patting. That is who in the world is that good to say it's emphatically worth \$397,900,000. Why couldn't it be worth \$400 million. If we questioned the algorithm genius I doubt that person could defend a "definitiveness of the applied market value". I've faced appraisals in a litigious situation in which the appraiser derives a market value for a property as follows (i.e.) \$3,459,300. Folks, I'm a good appraiser but not that good; and no one is.

Let's go back to appraisal basics. We have no record as to the amount the White House would lease in today's market. We have no true "comparable" sales, so where's the Market Approach. The Cost Approach is the only other alternative and in conclusion all that would have been resolved is the cost to build the building today and some estimate of depreciation, also via the engineering method. Now, set all the machinations aside and realize the White House shares the same fate as the Mona Lisa, the David and other works of art. They are all "priceless" meaning clearly there is no truly acceptable means of deriving the market value of the items. And, I can prove that Zillow's result isn't supportable as I calculated the costing and arrived at \$456,838.920.43!!

**Courtesy of**  
**Amerival**  
Tel. 732-286-3000  
Email & Web  
acerone@amerival.net  
myappraiser.amerival@gmail.com  
<http://www.amerival.net>

### ***Absolute Priority Rule -***

The idea that creditors' claims take precedence over shareholders' claims in the event of a liquidation or reorganization. Shareholders are compensated only after creditors have been fully paid off

### ***Working Capital-***

Current assets minus current liabilities. Working capital measures how much in liquid assets a company has available to build its business. The number can be positive or negative, depending on how much debt the company is carrying. In general, companies that have a lot of working capital will be more successful since they can expand and improve their operations. Companies with negative working capital may lack the funds necessary for growth. It is also referenced as net current assets or current capital.

### ***Block Busting-***

The illegal practice of inducing home-owners to sell their properties by making representations regarding the entry or prospective entry of persons of a particular race or national origin into the neighborhood. If anyone is aware of this type practice, it must be reported. It protects the people living in the targeted areas. Professionals have an obligation to advise the authorities of any activity that appears to fit this description.

***ELUSIVE VALUE-*** First we need to set aside a misunderstood fact of Market Value. There is no such thing as “**the**” Market Value. There is “**a**” Market Value. Value is as clear as the old saying, “beauty is in the eye of the beholder”. One must recognize that appraising is an art and not a science. If it was the latter, then the result of an appraisal of any specific property would be a mathematical fore drawn conclusion. A market value is the result a professional appraiser arrives applying recognized applications or a derivative of a particular method or hybrid of same.

The appraisers reading this will most likely concur that there are some properties that seem to defy appraising. These are the “fun” assignments that when an appraiser is completed with it there is no feeling of accomplishment because there is little confidence in the result. It’s times like this that an appraiser must return to the original concepts of valuation and the Principles of Real Estate Appraising. Then return to the valuation within the assignment and see if the result is supported by the concepts and principles. This being accomplished brings about an acceptable level of confidence in the concluded appraised value in that assignment.

The factor of success in a very difficult assignment is if you can lead a reader to a conclusion expressed as “I understand that.” The focus is the Principles of Real Estate Appraising. They were derived by those who understood that there had to be a basis for all that an appraiser accomplishes. It’s not the mathematics or the techniques it’s the common sense explained in the appraisal. The methodology is successful if the reader can relate to the appraiser’s reasons and rationale. Unfortunately, too many appraisers try to impress the readers with abstract statistics which lead a reader to succumbing somewhere between boredom and making the reason and rationale so complex that it is non-decipherable. An appraiser’s responsibility is create a written environment for the reader in which the only rational reaction is best stated as, “Yes, I understand”.

### ***THIS EDITION'S SELECT PROFESSIONAL***

Peter Zipp, Esq.

Of Zipp, Tannebaum & Caccavelli, LLC , 280 Raritan Center Parkway, Edison, N. J. 08837, Tel. 732-605- 1000

Mr. Zipp, is a living legend in the real estate tax and condemnation specialties. Now, that is quite a statement but it is true. He provides seminars and appearances for various groups who are looking to have a successful venue, knowing the press of his involvement will create substantially more attendees than without this gentleman. He represents various municipalities for tax appeal matters and also is in demand from the general public and corporate entities needing the best of service. More importantly than his capabilities, impressive resume’ and never ending list of accomplishments, he is one helluva nice guy. He is down to earth and earnest in his feelings of others. I’ve known him for several years mostly as an adversary, but not really. He pushes his agenda but only to the point that he believes to be reasonable. His demeanor was always professional and his attention was to gain parity. He was respectful, willing to professionally present his position and accept a reasonable compromise when proved worthy of that decision. So, if you are lucky to encounter Peter, enjoy but if as an adversary, you better *really* know what you’re doing!

***TIME TO DO A WILL OR UPDATE YOUR WILL-***

Ladies and Gentlemen, this is a reminder that I extracted from an email reminder from Christine Matus, Esq. who provides advice and assistance to her clients for creating wills or updating same. I believe this is worth disseminating to those on our newsletter list.

I have other attorneys with whom I interact professionally who also are experienced and competent in this field. I am certain they do not take offense in reporting the advice of Ms. Matus. It's a mutual benefit to those other professionals and to the clients fortunate to have these great professionals available to them. Whomever you have as your attorney and believe to be competent and interactive with your life plans, you would want to touch base with them about possible changes and / or updates to your will. Now is a good time to see them.

The message I received in part is as follows:

***Happy 2017! It's a New Year, the Year of YOU!***

***Many of us make our list of resolutions for the upcoming year. We are full of promise, excitement and motivation! But something happens by February, where about 85% of us have lost motivation and forgot all about those resolutions!***

***How many of us have thought, "Do I need a Last Will and Testament done? Or updated?"***

***Imagine having it done, crossed off your list.***

***Imagine the feeling that if you should pass away, your family will be taken care of.***

***Imagine the feeling that if you become disabled or worse, your business will still thrive.***

***Imagine the feeling of peace and security that your assets are protected and will go to those who matter if something should happen to you.***

***Well, now is the time to act on them.***