

Broker Price Opinions

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October 18, 2010

For the sake of discussion, toward developing a consensus among the Real Estate Industry, I have been challenged to draft a definition of “broker price opinion.”

Background: In an attempt to define “broker price opinion,” (BPO) it is important to first understand the definition of “price” and the definition of “value.” The *Dictionary of Real Estate Appraisal, 4th Edition*, defines price to be, “The amount a particular purchaser agrees to pay and a particular seller agrees to accept under circumstances surrounding their transaction.”¹ That same dictionary shows four definitions of value. Definition number four applies, “The monetary relationship between properties and those who buy, sell, and use those properties. Value expresses an economic concept. As such, it is never a fact, but always an opinion of worth of a property at a given time in accordance with a specific definition of value. . . . In appraisal practice, value must always be qualified. For example, market value, liquidation value, investment value.”²

The term “value” comes with qualifiers like fair value, insurance value, investment value, liquidation value, market value, etc. Likewise, the term “price” comes with other qualifiers like sales price, listing price, liquidation price, asking price, offer price, etc.

¹Page 219, *Dictionary of Real Estate, 4th Edition*.

²Page 218, *Dictionary of Real Estate, 4th Edition*.

The difference is that price is a historical fact, or a price which has happened. Someone has asked a price or offered a price, even suggested a price. On the other hand, value is a concept, an opinion, or a relationship. While most appraisals focus on the definition of market value, appraisers are occasionally asked to estimate other definitions of value, such as liquidation value, tax value, or investment value, etc.

There are several definitions of market value, all of which are somewhat similar. The following definition of market value is used by agencies that regulate federally insured financial institutions in the United States, "The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably and assuming the price is not affected by undue stimulus. Implied in this definition is the consummation of a sale as of a specific date and the passing of title from seller to buyer under conditions whereby buyer and sellers are typically motivated, both parties are well informed or well advised, and acting in what they consider their best interest. A reasonable time is allowed for exposure on the open market. Payment is made in terms of cash in US dollars or in terms of financial arrangements comparable thereto and the price represents a normal consideration for the property sold, unaffected by special or creative financing, or sales concessions granted by anyone associated with the sale."³

The universal law of the land, called USPAP, or the Uniform Standards of Professional Appraisal Practice, contains the following definitions:

³Page 177, *Dictionary of Real Estate Appraisal, 4th Edition.*

Appraisal: "The act or process of developing an opinion of value."

Price: "The amount asked, offered, or paid for a property."

Value: "The monetary relationship between properties and those who buy, sell, or use those properties."

With this background, it is clear that there is a difference between price and value and the statutes and regulations regulating appraisers and appraisals have to do with the term "value."

Definition: Based on the above and for legal purposes, I would propose the definition for "broker price opinion" (BPO) be, "**Any written opinion of price prepared by a real estate broker or licensed sales agent.**"

Editorial: In order for that price to have any meaning, it should have a qualifier such as, list price, sales price, asking price, quick sale price, etc. The use of a qualifier should be up to the one offering the opinion. Without a qualifier, the term "broker price opinion" is very broad. If taken literally for face value, a BPO is simply an opinion of a broker about price. That is clearly different than the opinion of an appraiser about value or market value. The difference is the discipline imposed on an appraiser and the independent objectivity required of an appraiser. Because of these definitions, BPO's cannot replace appraisals.