

REORGANIZATION AND REVISIONS TO *THE APPRAISAL OF REAL ESTATE:* The Process and Its Results

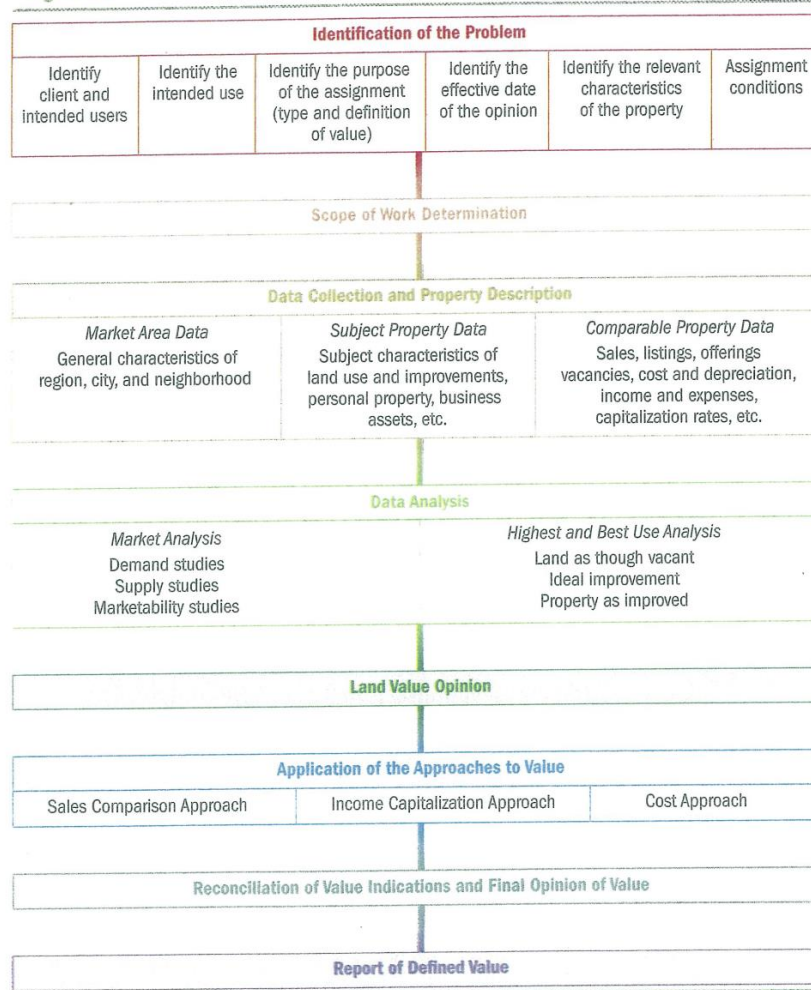
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BACKGROUND

- Textbook first published in 1951 by The American Institute of Real Estate Appraisers
- Designed to serve as a basic textbook for the student of the subject. Emphasis on basic theory and principles rather than methods, which were only included as illustration.
- 14th edition published fall 2013
- Senior technical writer/senior book editor was Michael McKinley. He was senior technical writer for 12th and 13th editions too.
- Process involved contributions from about 50 members

Figure 4.1 The Valuation Process



REORGANIZATION

- Designed to model the Valuation Process
- Bookended by a group of chapters on introductory topics and topics outside the classic appraisal format (appraisal review, consulting).
- Notable additions include a new chapter devoted to scope of work, significant additions to chapter on valuation for financial reporting, and a new chapter devoted to valuation of personal property and intangible property

SUMMARY OF CHANGES TO INDIVIDUAL CHAPTERS

•Part 1. Introduction to Appraisal

- Introduction to Appraisal
- Land, Real Estate, and Ownership of Real Property—Type of value and rights appraised given separate chapters
- The Nature of Value
- The Valuation Process: new sidebar discussion of “scope creep.”

•Part II. Identification of the Assignment

- Elements of the Assignment: includes new discussion of jurisdictional exceptions and distinguishes between general assumptions and extraordinary assumptions
- Identifying the Type of Value and its Definition
- Identifying the Rights to be Appraised

•Part III. Scope of Work Determination

- Organized around the three-step process: identifying the problem, determining the solution, applying the solution
- Based on Stephanie Coleman's book on the subject

•Part IV. Data Collection and Property Description

- Data Collection: New discussion of verification of data and sidebars on how much data is enough and how often data needs to be updated
- Economic Trends in Real Estate Markets and Capital Markets: effort to make material relevant in light of financial crisis of 2007-2008. Eliminated discussion of savings and loan associations
- Neighborhoods, Districts and Market Areas: includes “value influences” for the various districts

•Part IV continued

- Land and Site Descriptions

- Building Description: New material on green building and related issues (intelligent buildings, the whole building approach); property inspection replaced with site visit; discussions of emerging trends in design of specific types of property

•Part V. Data Analysis

•Statistical Analysis in Appraisal

•Market Analysis: Repetitive examples of six-step process for every property type in 13th winnowed down to two examples; a level B inferred analysis of residential subdivision and a level C fundamental demand analysis of retail center.

•Highest and Best Use Analysis: New definition added to eliminate ambiguity of the “appropriately supported” language in older definitions; significantly revised discussion of excess land and surplus land; feasibility rent illustration

•Part VI. Land Value Opinion

- Land and Site Valuation: Extended examples of subdivision development method of valuing land moved out of the chapter. More discussion of limitations of certain land valuation techniques in distressed markets

•Part VII. Application of the Approaches to Value

- The Sales Comparison Approach: one of ten elements of comparison—use/zoning—changed to legal characteristics. Good discussion of fee simple/leased fee issue
- Comparative Analysis: This refers to the adjustment process, or the process by which a value indication is derived in the sales comparison approach. More discussion to clarify when trend analysis, statistical analysis, graphic analysis and personal interviews can be classified as quantitative or qualitative techniques

•Part VII. Application of the Approaches to Value Cont.

- Applications of the Sales Comparison Approach: Illustrations of most commonly used techniques of sales comparison.
- The Income Capitalization Approach: Includes the statement, “When the fee simple interest is valued, the presumption is that the property is available to be leased at market rates.”
- Income and Expense analysis

•Part VII. Application of the Approaches to Value Cont.

- Direct Capitalization: Added surveys as “accepted techniques for derivation of Overall Capitalization Rates.” Eliminated derivation from income multipliers.
- Yield Capitalization
- Discounted Cash flow Analysis and Investment Analysis
- Applications of the Income Capitalization Approach: New chapter consolidating the extended examples in the prior years’ publications.

•Part VII. Applications of the Approaches to Value Cont.

- The Cost Approach: Includes the unfortunate statement, “The value indication developed using the classic cost approach procedure is the value of the fee simple interest in the property at stabilized occupancy and at market rent.”

- Building Cost Estimates: New discussion of costs typically not included in cost manuals; site improvements now shown as direct costs and thus included in the calculation of entrepreneurial incentive and indirect costs (when shown as a percentage of direct costs); good discussion of estimating entrepreneurial incentive.

•Part VII. Application of the Approaches to Value Cont.

•Depreciation Estimates: New material on patterns of depreciation, the curability of functional issues, external obsolescence, and property rights adjustments. Excellent discussion of equilibrium rent as basis for quantifying obsolescence; very bad discussion of fee simple/leased fee.

•Part VIII. Reconciliation of the Value Indications and Final Opinion of Value

•Reconciling Value Indications

•Part IX. The Appraisal Report

- The Appraisal Report: Removal of USPAP-defined *summary appraisal report* and *self-contained appraisal report* to correspond with 2014 USPAP *Appraisal Report* and *Restricted Appraisal Report*; example of a letter of transmittal included

•Part X. Appraisal Practice Specialties

- Appraisal Review: Greatly expanded content.
- Consulting: Moving away from USPAP definition of *appraisal consulting* and more toward a general approach to consulting as an alternative to “acting as an appraiser.”
- Valuation for Financial Reporting: Significant expansion of discussion of this topic.

•Part X. Appraisal Practice Specialties Cont.

- Valuation of Real Property with Related Personal Property or Intangible Property: Emphasizes debate on valuation techniques and draws no conclusions. Discusses various techniques, to include both management fee method and parsing the income method.

•Addenda

- Appendix A. Professional Practice and Law: Brief discussion of USPAP; Certification Standard and Code of Professional Ethics of the Appraisal Institute; and International Valuation Standards. Lists Federal Statutes and Regulations Affecting the Appraisal Profession.
- Appendix B. Regression Analysis and Statistical Applications
- Appendix C. Financial Formulas