

JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

V. INDUSTRY SEMINARS AND SPEECHES - SHORT TERM

A. Appraisal Organizations

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d. "Appraisal Practice in the Future &
Appraisal Education", SREA International
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APPRAISAL PRACTICE IN THE FUTURE & APPRAISAL EDUCATION

SREA International Convention - Reno, Nevada
Monday, July 30, 1979
Professor James A. Graaskamp, SREA, CRE

I. Precedent and Stress of Changing Times

- A. Orthodox methodology finds much of its strength in the inertia of precedent even though the origins and reasons for the original orthodoxy have been lost. Mack Hodges provided several quotes on the power of precedent worthy of repeating here:

Sam Walter Foss, The Calf Path

"I will look, your honor, and endeavor to find a precedent if you require it; though it would seem to be a pity that the Court should lose the honor of being the first to establish to just a rule."

Rufus Choate, 1 Brown, Works of Choate 292 (1862)

- B. Origin of the three approaches to value found in the politics of brokerage, private lenders, and federal government interference.
1. SRA has avoided brokerage bias.
 2. SRA is a source of resistance to government modification of appraisal reality.
 3. SRA by itself lacks staff and strength to reform counterproductive value concepts influencing mortgage lending.
- C. Obsolete concepts in changing times create stress which appears in loss of professional prestige, difficulty in recruitment, and loss of markets.

- D. Loss of markets to:
 - 1. Government subsidized automated appraisal systems
 - 2. Appraisal by national accounting and investment banking firms
 - 3. Valuation engineering by physical design firms
 - E. All of above have access to and control of customers, data processing technology in place, and credibility of long-term business relationships and trade reputations.
 - F. Competitive pressure, changing technology, and more sophisticated analysis will change the organization of the profession, the individual firm, and the content and format of professional education.
- II. Merger is an idea whose time has come
- A. Debate on theory has move from the ivory tower in 1965 into daily practice.
 - B. Since 1968, EDUCARE has been sponsored as a joint educational effort
 - C. Since 1975, the new Terminology Handbook has been the standard of the industry
 - D. Since 1975, there has been intensive discussion and negotiation of merger
 - E. Since 1975, there have been joint data bank efforts
 - F. In 1979, recognition of the broader role in the title change The Real Estate Appraiser and Analyst
 - G. Land use control law, growth management, rent control, reform of mortgage lending debates show need of a unified, objective voice for appraisal.
 - H. Predict merger of SREA and Institute within two years with immediate result that:
 - 1. A single new contemporary appraisal textbook
 - 2. Consolidation of real estate appraisal education into a single institution with a home campus, educational TV ties, a professional instruction
 - 3. Within five years, the central facility would be accredited to offer a graduate degree in real estate for the part-time student
 - I. Within five years, the new appraisal organization would absorb The American Society of Appraisal and provide specialties in commercial property, jewelry & art, machinery, public buildings, land and residential

- J. Shortly after merger with ASA, the combined appraisal group would withdraw from National Association of Realtors

III. Organizational changes for the appraisal firm

- A. The independent appraiser cannot survive and would follow lead of legal and medical professions to group practice as a clinic of specialists sharing a pool of technical support.
 - 1. Competition and complexity require a team combination of expertise
 - 2. Energy, engineering, and environmental sensitivity require technical support in these areas
 - 3. Expanding market and demographic data requires statistical and data processing skills appropriate to courtrooms and boardrooms educated to modern information processing.
 - 4. Clinic practice permits cost sharing in equipment like computers, word processing, and preparation of graphics
- B. Fee schedules and compensation formulas and contracts may resemble standard forms in architecture or law
- C. Better appraisal products and higher risk real estate decisions will mean significant increases in base fees and profit sharing in the style of group medical and legal practice
- D. Group practice provides bargaining power and value added at the expense of brokerage commissions and reduced risk of investment (reduced losses)
- E. Group practice means more feasible malpractice insurance
- F. Group practice means recapture of high volume appraisal work and low volume high ticket projects taken by other professions

IV. Group practice appraisal requires that the principal partners be able to communicate with many professions which cut across traditional university department lines

- A. Business school preparation in accounting, tax law, and marketing
- B. Design school preparation in site analysis, vocabulary of structures and schematic design program
- C. Civil engineering tools such as surveying, soils, air photo interpretation
- D. Mechanical engineering vocabulary for energy systems, HVAC systems, elevator configuration and security systems
- E. Law school content in terms of land use control, leases, real estate transactions, evidence, the sociology of juries, and courtroom communication

- F. The political science of urban and regional planning and growth management
- G. The statistics of description, inference, market measurements, and economics
- H. Management forms and techniques of professional practice
- V. The only advantage to your present position is that the appraisal societies still have primary claim on the right to define appraisal methodology
 - 1. The right has little strength without merger
 - 2. With merger, appraisal can integrate methodology with current thinking in accounting, investment finance, engineering, and physical site analysis
 - 3. A single organization can update its membership quickly and effectively while clinic practice provides the competitive power to bring the message to the user and market against the encroachments of accounting and finance

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- B. Speaking of doubtful precedent the origins of the three approaches can be found in the politics of real estate in mid-1930 - brokerage, the federal government and institutional mortgage lenders.
1. SRA is free of the brokerage bias
 2. SRA has provided firm resistance to further government modification of the appraisal process.
 3. SRA has failed to attack regulation of banking and its dependency on loan to value regulation. This failure can be excused because a single appraisal organization is neither strong enough or staffed adequately to educate the regulators.
- C. As times change the needs of current decision makers are not well served by static and dormant techniques which are not appropriate to the context of modern decision. Stress lines appear in terms of professional prestige, professional morale, and loss of markets.
- D. Loss of markets for appraisal profession has already occurred and is increasing at an accelerating rate due to competition from three sources:

1. Development of automated appraisal systems for assessment and for residential mortgage lending and similar class properties such as ranch land and wilderness areas. Heavy R&D expenses in these fields by government agencies will soon be translated into low cost mini-computer processing for local government, local lenders, and private data services.
 2. Formation of appraisal divisions by the National Accounting and Investment Firms who see greatly expanding opportunities in market valuation of company real estate, annual valuation of real estate in pension funds and comingled trusts, as well as consulting opportunities where inside information on cost data is critical.
 3. Introduction of valuation engineering and feasibility services by physical design firms involved in land planning, architecture, construction management, and engineering.
- E. Data processing technology is already well established among the major competitors to the appraisal profession as are contemporary statistical and financial methods. Not only do these competitors have better access and control of the customers for appraisal services, their techniques appear more sophisticated. The fact that their real estate judgment and sensitivity to local conditions may be lacking will be overlooked because of their better form in presentation and credibility from established professional image and long term relationships.
- F. In response to competitive pressure, changing technology, and the need to serve a diversity of clients, the appraisal profession will change significantly in its organization and educational formats. Organization will change for both the individual firm and the profession; education will change to meet the needs of the firm.

II. Merger Is An Idea Whose Time Has Come

- A. Since 1965 there has been widespread debate on orthodox methodology and it has moved from the ivory tower of Kinnard, Wendt, Ratcliff to the arena of professional debate and publication. "The three approaches" is significantly modified in practice by the leading practitioners.
- B. Since 1968 to the present the three major appraisal organizations have pursued a joint educational program through EDUCARE to avoid competition in the important area of data processing for the independent appraiser.
- C. 1975 - publication of the new terminology handbook as a joint effort of SREA and the MAI organizations with significant revisions in definitions of highest and best use, market value as probable price, and other areas which will redirect the appraisal method.
- D. 1975-76 - Serious consideration of merger by the two major appraisal groups.
- E. 1977-78 - The appearance of data processing resources such as the SREA Data Center, mini-computers programmed by appraisers for appraisers, and a variety of time-share vendors providing census data, construction data, market sales data, etc. on a national basis.

- F. 1979 recognition that appraisal is only one function of real estate analysis with the new amended title to your professional magazine The Real Estate Appraiser and Analyst.
- G. The increasing frequency in which major public issues such as reform of mortgage lending, land use control legislation, rent control legislation, real estate tax reform, the environmental hustle, income tax reform, estate tax reform all require input from the appraisal profession. It is imperative that the professional speak with one voice and without fear of legal harrassment by the Justice Department or competitive carping by a segmented group of appraisal organizations.
- H. Therefore like the Great Kreskin, I am predicting merger of the SREA and the Institute within two years and further merger with the American Society of Appraiser in five years. Immediate results of such a merger will include:
1. A complete rewriting of the basic appraisal textbook and the theory of appraisal methodology within two years following merger. The new text will reflect the principles of Kinnard, Ratcliff, Wendt and others and reflect the fact that the basic function is that of real estate analysis, from which we can draw an appraisal, a financial feasibility, a market analysis, an investment report, etc.
 2. Consolidation of real estate education into a single institution which will have a permanent home on a campus tied to an educational television facility which will produce cassettes and other visual aids for rapid dissemination of contemporary ideas to the profession through Betamax players in your own home or through presentation in continuing education facilities around the country.
 3. This American College of Real Estate Analysis would be accredited by all the various State licensing agencies and in addition would establish an MS program in real estate analysis similar to that available from American Life Underwriters.
 1. The Life Underwriters offer an accredited graduate degree in insurance which requires 89 weeks in residence in Philadelphia learning basic tools such as statistics and finance and decision making, a year and a half doing specific application on the job to demonstrate knowledge of the tools, and then six weeks of case analysis and joint experience in the classroom back in Philadelphia.
 2. As an alternative similar programs for the full-time college student would be available at selected universities throughout the United States.
 3. Notice that a central facility producing audio degree of quality control of course presentations at remote points by those professionally trained in education as well as appraisal.
 1. Merger and consolidation of dues, educational fees and appraisal method development would provide solidarity. Within five years of merger the appraisers would withdraw from the National Association of Realtors.

1. Constructive state licensing would eliminate the erosion of market and prestige by unqualified in the sales professions.
 2. Withdrawal from NAR would improve the appraisers with the opportunity to speak on matters of public policy without some of the unfortunate bias of NAR over the years.
- III. The Organizational changes for the firm will be more profound than merger of the professional societies and modernization of professional education efforts.
- A. The independent appraiser as a professional must respond to the competitive threats of the financial professions and the physical designer by moving toward group practice (much like medicine and the law). A clinic of real estate analysts would permit specialization of real estate practices and pooling of technical support.
1. The appraiser as a generalist cannot survive in an age of specialization. Farm economics, industrial economics, residential patterns, etc are changing too quickly. In group practice, there would be the opportunity for consulting and a team approach.
 2. In the near future, an appraiser must be very sensitive to energy, engineering, traffic engineering, and civil engineering for land and water attributes of a site. Land use control law must be closely coordinated with appraisal. The appraisal clinic would have individuals in such fields inhouse or a professional on retainer for inputting to each assignment.
 3. Statistical research disciplines on demographics, sales analysis, expense trends, etc. will require quantitative skills which are often found in the same individual who is good with people or with physical property characteristics. Professional statisticians and computer programmers come cheaper than appraisers and are essential to realizing the optimal capacity of data processing equipment and to defending the conclusion to be drawn from the data in the courtroom or the boardroom of bright MBA graduates.
 4. Clinic practice permits sharing in the cost of adequate computer capacity of word processing equipment, and of increasing use of graphic and drafting techniques for communication.
- B. Fee schedules and compensation formulas will need to be modeled after the legal or engineering professions.
1. Perhaps real estate analysis needs to be subdivided into a series of steps like a standard architectural contract. This standard contractual form would have the appropriate hold harmless agreements relative to professional liability and a catalog of alternative services which could be available to the client. Indeed,

it would provide a useful device for helping the client to define his real needs for real estate analysis instead of passively accepting the assumption that he really needed an appraisal of fair market value because that is what he asked for.

2. The law firm with a variety of specialties has provided a good prototype for organizing the partnership and creating a base for business continuity.
- C. Compensation formulas might involve specification of one of the appraisers as the account executive for a specific client, for which responsibility he might receive 5% of collective billings; in addition, he would maintain a daily sheet on hourly expenses incurred on each account and the technical pool would be treated as an overhead account to be absorbed (under and over) by the various accounts; at the end of each six months, the profit picture for the group could be determined and deposits could be made to profit sharing accounts at some predetermined level of participation. There could be senior partners, junior partners and associates and the seniors might be able to award bonuses for singular efforts by junior partners and associates.
1. Group medical practice probably offers the best parallel for design of group appraisal practice in terms of the combination of individual medical talents and the necessary base of technicians, accountants and equipment.
 2. Sophisticated group practice would make possible fee schedules comparable to those of attorneys. After all, appraisal skills are as important as courtroom technique in litigation and in real estate transactions.
 3. A group clinic provides the continuity of service and record keeping required to secure and hold business from large business enterprises. That will be critical in obtaining an appropriate share of valuation problems relating to changes in financial reporting by public corporations and real estate funds for pension programs and other investments.
 4. Group practice can provide knowledgeable financial input to the formation of public policy, land use planning, growth management proposals, and significant improvements in the process of eminent domain.
- D. Group practice and professional real estate analysis will enhance the fee schedules because of its bargaining power with financial institutions and the usefulness of its services in creating or protecting value. Compared to the value added by objective research the significant over-charges of real estate brokerage and investment banking on a cost benefit basis to the property owner.
- E. Group practice through the appraisal clinic will improve the economics of maintaining professional malpractice insurance and liability

limits for the practitioner under the security laws and banking laws which will have increasing application to real estate valuation responsibilities.

- F. Most important the clinic with data technicians and data processing can recapture the high volume low fee appraisal work from the banks and the assessors. At the same time, they will be able to compete with expertise in land planning and engineering with the design firm for the more infrequent, high price feasibility studies and other real estate reports for the sophisticated client.
- IV. Group practice requires the ability to communicate with and respect contributions of many specialties and that will expand the minimum requirements of college preparation for a career as a real estate analyst.
- A. A business school preparation in accounting and tax law is required to ask intelligent questions and focus the work of technicians in that area of financial analysis.
 - B. A design school preparation in site analysis land form, the vocabulary of structures, and architectural programming must be acquired.
 - C. In the area of civil engineering, some knowledge of surveying, soils, hydrology, air photo interpretation, geology for engineers, and remote sensing techniques are necessary to recognize their applications and potentials.
 - D. The field of mechanical engineering must provide a basis for energy conservation, HVAC systems, and other devices such as elevator configuration and fire systems.
 - E. The law of land use control, leases, and real estate transactions are obvious requirements but equally useful would be matters on forensic appraisal such as the presentation of evidence, the psychology and sociology of juries, and courtroom communication.
 - F. The process of urban and regional planning and the political science of growth management must be understood by the appraiser.
 - G. The statistics of description, inference, market measurement and economics are the basic tools of the professional analyst and yet most of us are poorly equipped to structure our own work or critique the research methods of others.
 - 1. An appraisal is a forecast of future behavior by buyer and seller and yet appraisers are seldom taught either economic forecasting or the methods of social research of behavior.
 - 2. Since forecasting inherently has an element of risk and uncertainty, the appraiser must be trained to qualify his judgments as to the degree of the reliability which should be attached to a conclusion under the circumstances.

- H. The accounting industry, the investment bankers, and the design professions are already building appraisal capacities into their organizations. Individual appraisal firms have little capital with which to finance and bring a college recruit into their firm. Clinic practice might finance better recruitment of young real estate analysts.
- I. The real edge which may save appraisal from extinction is that you have established the right to define appraisal methodology. You have an organization which could communicate and teach the new appraisal process but you cannot afford to waste further time and group energies bickering on merger. Get on with it and then redirect your efforts toward updating the appraisal firm, methods, and marketing abilities.