JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

V. INDUSTRY SEMINARS AND SPEECHES - SHORT TERM

A. Appraisal Organizations

18. Dates and/or Groups Unknown

b. "The Winds of Change - A Vane Prediction" Joint Meeting of SREA Chapter 73 and Wisconsin Chapter of AIREA in Madison, WI at the Sheraton

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Circa 1979-80

THE WINDS OF CHANGE - A VANE PREDICTION[1]

President Hastings, Fellow Appraisers, Guests, and Bartender at the Sheraton... It is an honor to be asked to address this joint session of SRA Chapter 73 and Wisconsin Chapter of the American Institute on the occasion of Robert Hastings awarding Robert Hastings his recertification as an SREA.

However, it occurred to me as early as this morning that you all have heard me speak many times before and that I had said all I knew about appraisal in those previous sermons. Thus my alternatives for this evening were to speak on something about which I knew little or nothing but then I must do that at the University twelve times a week; I could speak on something about which you knew little or nothing but the list of topics seemed endless; therefore, I have chosen to talk about something none of us knows anything about, the future, specifically the future of Professional Appraisal.

From atop the ivory tower at the peak of Bascom Hill it appears that the decade of 1980-89 will represent a pivotal turning point in the structure of appraisal as a profession, a business, and a lifestyle as significant and pervading as the conferences which resulted in the formation of the American Institute of Real Estate Appraisers and the codification of the three approaches to value by 1936.

The future is found in the momentum of events today if we could only recognize them as pivotal and predictive. So before describing appraisal as a profession by the end of 1989, let me identify a few significant points from which I am extrapolating the future.

1. During 1960-1970 widespread debate and criticism of orthodox appraisal methodology appeared in various academic centers for real estate studies prompted by teaching giants such as Ratcliff, Wendt, Kinnard, Case, and Ring.

2. From 1970 to the present, debate and innovative methodology has moved from the ivory tower to the arena of professional publication and application. Professional appraisal groups began to clarify old precedents to permit modification of the three approaches and synthesis as justified by the problem and data, began to recognize statistical methods and capital budgeting techniques as relevant valuation tools, and began to expand appraisal functions toward analysis, feasibility, and counseling in asset management.
3. 1970 saw the appearance of a major effort at joint education via EDUCARE, a foundation devoted to teaching that as the economics of computers shifted, the power of the medium would lead toward restructuring of the appraisal process. Data processing will lead to business forecasting of probable price through inference, simulation, or at worst sutomated application of traditional repetitive techniques such as the cost or income approaches.
4. State licensing of appraisal and discussion of standardized education, recertification, and redrafting of textbooks in common terminology was a common topic by 1975. A joint educational foundation to address these needs appeared in 1975 directed by leading practitioners from several appraisal societies.
5. 1975 marked the publication of the new Terminology Handbook as a joint effort of the Institute and Society with far reaching effects accelerating change. Wealth maximization as the sole criteria of best use was replaced with a more complex concept of most probable use as being the most profitable option that was possible within the law, having determined which uses were legally and politically possible, adequately supported by effective demand, physically feasible, as well as compatible with community plans and objectives.

The term "most probable price" came off the campus and into the lexicon of the trade.

6. 1975 also saw the surfacing of serious negotiations for merger of the Institute and the Society. The merger was sidetracked by government legal action in 1976.
7. 1970 to the present has shown the gradual appearance of appraisal data banks such as The Market Data Centers, of time sharing services and vendors geared to real estate analysis, of word processing and data management technologies for the appraisal office, and of hand calculators programmed for application of statistical and capital budgeting theories applied to real estate. Trade literature blossoms with innovative methods and critical debate.
8. By 1976 the FSLDIC and FHLB were reexamining appraisal methods used for both residential and income properties. At this time the Home Loan Bank is drafting a policy statement on automated appraisal systems. HLB displaced Ellwood methods by specified Mortgage Equity ratios including debt cover and default ratios to relate loans to cash flow capacities rather than values.
9. By 1977 the movement toward State licensing and mandatory continuing education for lawyers, accountants, real estate licencees, and insurance people was gaining momentum across the country.
10. Finally in June of 1978 dismissal of federal suits against the Society following an earlier settlement by the Institute on insignificant terms removed a major impaction to the rapid restructuring of professional organization development. The ill-considered, federal political eyewash had disrupted merger, with counter productive economic pressure and diversionary sophistry on both sides concerning the minutia of appraisal when the basic premises of appraisal purpose and logic should have been the subject of national import.

So many talented professionals and educators have been involved in these events, including the young talents reflected in the topics and discussions of Young Advisory Council, there must be a forceful and exciting entry into the decade of 1980 for appraisal. There is a momentum and a reasonable foundation of thought and experimentation as well as perceptible trends which lead this fakir of finance and guru in the guise of Kreskin to predict:

1. Merger of the American Institute of Real Estate Appraisers and the Society of Real Estate Appraisers by July of 1980, subject to recertification of all members within five years of merger at appropriate levels of designation for residential appraisal, general real property valuation and real estate analysis.
2. By 1983, a congress of appraisers and academics will have completed a rewriting of underlying appraisal theory, methodology, and principles text to reflect the earlier work of Ratcliff, Wendt, Kinnard, Case, and others from both practice and acadamia.
3. By 1985, there will be a consolidation of real estate education for valuation into a single institution (National Real Estate College) responsible for course outline, instruction, supervision, examination, and certification in a process of continuing education modeled on the certification agencies found in insurance and the MS degree granting powers of the American College of Insurance in Bryn Mawr, Pa.
4. Development of these education programs would parallel the appearance of a uniform classified State licensing system for all real estate services, with 10 to 15 degrees of progressive sophistication and stiff recertification rules which recognized examination standards of the National Real Estate College.

5. By July of 1985 the merged professional organization will have invited and strengthened itself with a fourth level of designation for personal property appraisers and welcomed the American Society of Appraisers into its midst.
6. By 1983 development of certified appraisal data banks and automated appraisal techniques for residential property will prove acceptable to regulators of intermediate and secondary market institutions.
7. Development of public access to municipal market data banks on rents, prices, vacancy rates, new construction and rehabilitation and demographic data as well as recognized macro economic models for projection of one, five, and ten year levels of land area utilization will finally integrate economic base analysis and appraisal by the end of the decade.
8. By 1980, the independent appraiser will begin to feel the pressure to change his style and his methods from new sources of competition generated by valuation services from both financial services such as accounting and investment banking firms and the physical design firms in land, architecture, and engineering. These professions are in a position to know as insiders when real estate services are needed and are dedicated to retaining as many profit centers related to their expertise as possible.
9. By 1985, the independent appraisal office will vanish like the single lawyer or isolated general practitioner into group practice within a clinic of real estate analysts which includes specialists in physical real estate analysis, financial and market forecasting, or consumer survey research. At the very least, designated appraisers will share a pool of technicians in land and structural analysis, the mechanical engineering of energy, and survey research methodologies (much like the medical clinic or the group legal practice).

By 1985, micro computers and word processing will be a financial necessity for appraisal offices and permit a shared data base in the appraisal clinic.

10. The competitive entry of design and financial service firms will have a very favorable impact on fee schedules for all appraisers. Design and accounting firms know how to charge for the value added by their services rather than by simple-minded unit fee systems by the hour with a loading for overhead. Fees will become adequate to justify the cost of reeducation, reorganization, and recertification necessary to support the newly sophisticated and growing markets for appraisal services:
    A. Financial reporting of integrated real estate capital funds.
    B. Financial reporting of all public corporations so as to recognize submerged assets previously reported at depreciated costs rather than market value.
    C. Recognition of most real estate investment property as security interests subject to strict valuation reporting.
    D. Recognition of real estate as an equal to stocks and bonds as an investment media requiring the efficiency of security markets information transfer.
    E. Recognition of individual property analysis and micro dynamics as the basic planning input to the formation of public policy, land use planning and legislation, and reorganization of equities in the eminent domain process.

Never have the opportunities for change and recognition of the importance of valuation processes been so exhilerating and dramatic! At this joint meeting of rival professional societies with a history of petty bickering, it is appropriate to urge you to go with the flow, respond to "the force that is with you."

I predict that you each will be the judge soon on the issue of merger, a critical first step into the decade of the 1980's. Recall the words of Rufus Choate, yes, Rufus... "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."[2]

The world may little note what we may do or say here but you may be sure that if events prove out as I predict, I will be the first to remind you; if not, this will be forgotten like other after dinner speeches. One thing is certain about the future of these predictions: I have collected several drinks, a good dinner, and a captive audience; I can't lose.

[1]The following is the text of a speech on the occasion of the annual joint meeting of the Wisconsin Chapter of American Institute of Real Estate Appraisers and the Madison Chapter 73 of the Society of Real Estate Appraisers, September 18, Midway Motel, Madison, Wisconsin.

[2]Stolen from correspondence with Mack Hodges who attributes the quote to Rufus Choate, 1 Brown, Works of Choate 292 (1862)