

JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

V. INDUSTRY SEMINARS AND SPEECHES - SHORT TERM

C. Focus on Appraisal Reform

2. Communication with the Real Estate Industry

d. Correspondence with McCloud Hodges and
Michael Cane (United Kingdom) regarding
Appraisal Reform

McCLOUD B. HODGES, JR.

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May 14, 1987

Mr. Lester G. Thompson
Deputy Director for Operations
Virginia Department of Commerce
3600 West Broad Street
Richmond, Virginia 23230-4917

Dear Mr. Thompson,

In response to yours of the 12th, I can be available at almost any time to discuss details of your forthcoming public hearings. Please telephone me and advise me of the date, time and place.

I was very lucky during my trip to Los Angeles last week. I sat at dinner with Dexter MacBride (previously named) and Professor Gideon Kanner of the Loyola University School of Law. Our host was another practitioner I've known for almost as long as Kanner, or about 20 years. What Dexter and I failed to get into the discussion during dinner, we finished later in the evening in my hotel room in Glendale.

While I previously mentioned MacBride in my letter to you of May 3rd, I will now add that he grew up in Tidewater, Virginia and was later the chief right-of-way agent for California Department of Highways. He is a member of the Virginia and California bars, and was happy to learn that your department, rather than the Real Estate Commission, has undertaken the study. I have warned him that he will probably be asked to fly to Norfolk for your public hearing on June 29th. Now, see his letter to me of the 7th, Enclosure #1.

Gideon Kanner (listed also in MacBride's letter) and I have traded tidbits on defamation of lawyers and real estate appraisers almost since the era of the bankrupt REITs in 1974. Before he joined Loyola he practiced law in Calif., specialized in eminent domain, the co-authored a paper I have in the Pacific Law Journal, Vol. 8, no. 2, July 1977, titled, "Urban Renewal: Laissez-Faire For The Poor, Welfare For The Rich".

* My second enclosure is a letter from Dr. James A. Graaskamp, * holder of one of the most important chairs in land economics education in the nation. Please take special note of Jim's third and fourth paragraphs. He is as worried as I that the Appraisal Institute (AIREA), with its strong support by the National Association of Realtors, might persuade federal or state governments to adopt a "diluted enforcement program" -- and I am referring to the two documents of AIREA's mailed you before I went to California last week.

Enclosure #3 is an excerpt from Dexter MacBride's master's degree thesis in valuation sciences in 1979.

May 14, 1987

While we talked, Dexter said the subject just might be "too important to discuss. Everybody has a vested interest in an activity which can't stand regulation." He recalled that there are more single family residential appraisals than all others totalled, but the people who pay for those appraisals are denied the right to see them. "Appraisers don't need regulations because nothing really bad has ever resulted (until quite recently). . . Hardly any appraisers evaluating properties in California mention the future earthquake. But many other groups -- ham radio operators, the Red Cross, and the Pacific Bell and other telephone companies -- know there will be an earthquake and are prepared to react, but feel helpless by themselves. The public, therefore, is given no warning, no protection from the earthquake or the faulty or secret appraisal report. The public doesn't even know it needs help."

While in L.A. County I telephoned John H. Monroe, FASA, the outgoing president of ASA, to learn more about the inability of the seven to fifteen national appraisal societies to agree upon ethics and standards. As concerns your study, Monroe strongly recommended I try to get a copy of a speech in Baltimore, April 23rd, on appraiser oversight regulations, by U.S. Congressman Doug Barnard.

My purpose in sending all this extra information is to get you to tell me whether your study group would definitely be interested in hearing from any of the persons named in MacBride's May 7th letter, for then I would have to get on the telephone and invite them and, possibly also, solicit travelling expense contributions from friends in Virginia.

Sincerely,



M.B. Hodges, Jr.

Enclosures (3)

Pension April

DRIVERS JONAS Established 1725

Chartered Surveyors

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International Real
Estate Consultants

July 7, 1987

Professor James A. Graaskamp, CRE
School Business
University of Wisconsin
1155 Observatory Drive
Madison, Wisconsin 53706

Dear Professor Graaskamp:

I read with interest the article headed "Appraisal Reform and Commercial Real Estate Investments for Pension Funds" as published by Salomon Brothers Inc., January 1987.

Back in 1970, we met at the convention in Las Vegas for the International Association of Assessing Officers when I was on a panel with you. At that time I was employed by the Ontario Department of Municipal Affairs. Since that time I have worked for private enterprises, including my own company, and for awhile with Royal LePage, Appraisal Division. I have recently joined Drivers Jonas who are an international company of Real Estate Consultants and Valuers having a long history in U.K., being established in 1725. The company has had a presence in Canada for some 15 years and more recently, over the past 5 years, has established an office in Toronto.

As a trained Chartered Surveyor in the U.K., I was particularly interested in your article which points out some of the concerns that the North American real estate profession has with respect to the valuation of portfolio properties.

I certainly agree with the fact that as a profession we have been selling ourselves too cheap. Many institutions have caused appraisers to cut their fees substantially where in actual fact it should almost be the other way around, particularly with the advent of the information boom where so much more information or various specialities are required in order to completely understand the problem.

DRIVERS JONAS

Page 2
University of Wisconsin
July 7, 1987

One of the advantages of the company I am now working for is that is it based on the U.K. Chartered Surveyor concept. We have a multi-disciplinary compliment in the company and can call on experts to assist us in our valuations. For example, we work very closely with our Property Management division who are adequately qualified to provide us with detailed information as to the status of a building, including its construction and systems and as well give valuable commentary on the leasing structure and how such leasing structures can be improved.

This brings me to one disagreement I have with your article under the heading "The Appraiser and Building Management". You suggest that in order to avoid a systematic upward bias of value that hinges on the successful completion of grand improvement plans, a property should be valued exactly as it exists on the day of valuation without taken into consideration any potential improvements of the property. Whereas I agree that unrealistic and grandiose plans of improvement estimated by people not qualified for such commentary is unrealistic, I believe it is important that, under the definition of highest and best use which takes into consideration the purchase by a prudent purchaser, that one cannot assume the continuation of poor management. Surely the Valuer must assume that the purchaser is prudent and will adopt realistic management practices.

We tend to adhere by the Royal Institution of Chartered Surveyors standards for reporting on the valuation of fixed assets, as implemented by the International Asset Valuation Standards Committee.

Another aspect of our work is that we provide the client not only with an estimate of the value of his property but give suggestions as to how this value can be improved by carrying out prudent management techniques. As a result, the Portfolio Manager has a report which provides him with ongoing useful information.

**DRIVERS
JONAS**

DRIVERS JONAS

Page 3
University of Wisconsin
July 7, 1987

Once again I enjoyed reading your article and I hope that our paths will cross sometime in the future.

Yours sincerely,

A handwritten signature in cursive script that reads "Michael Cane". The signature is written in dark ink and is positioned above the typed name.

Michael Cane
A.A.C.I., F.R.I.C.S., P.L.E.
Vice President, Valuations

MC/im

**DRIVERS
JONAS**