

JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

V. INDUSTRY SEMINARS AND SPEECHES - SHORT TERM

- I. Other Presentations In Which Either The Date And /  
Or Sponsoring Organization Is Missing
2. Appraisal Topics
  1. "A Contemporary Real Estate Appraisal  
Report", March 14, 1977

Suggested Outline for  
A CONTEMPORARY REAL ESTATE APPRAISAL REPORT  
Based on Appraisal Theories of Richard U. Ratcliff  
Prof. James A. Graaskamp  
University of Wisconsin School of Business  
3/14/77

Letter of Transmittal

1. Brief statement of appraisal issue
2. Value conclusion as most probable price within stated transaction zone
3. Sensitivity of conclusion to critical assumptions
4. Incorporation by reference of limiting assumptions and conditions

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Table of Exhibits

Digest of Facts, Assumptions, and Conclusions

1. Property type
2. Property location
3. Property ownership pattern
4. Keystone physical attributes
5. Keystone legal attributes
6. Keystone linkage attributes
7. Keystone dynamic attributes
8. Most probable use conclusion
9. Most probable buyer assumption
10. Most probable price prediction and central tendency
11. Correction of preliminary value estimate for external factors or market position of parties
12. Test of corrected probable price for consistency with most probable buyer objectives
13. Final value conclusion and range of error estimate as appropriate

I. Basic appraisal process constraints

- A. Statement of issue and circumstances for which appraisal is intended to serve as a decision benchmark and date of valuation
- B. Special problems implicit in property type or issue which effect appraisal methodology and definition of value
- C. Special assumptions or instructions provided by others
- D. Definition of value to be the objective of appraisal analysis and discipline of appraisal process
  1. State selected definition and source
  2. List implicit conditions of the definition
  3. Special assumptions required by relevant legal constraints
- E. Definition of legal interests to be appraised
  1. Legal description and source

2. Permits, political approvals and other public use entitlements included in sale
3. Fixtures or personalty to be included with sale
4. Specific assets excluded as inconsistent with issue or premise of appraisal

II. Property analysis to determine most probable use

A. Site analysis

1. Physical (static) site attributes (including size, shape, geology, slope, soil, hydrology, etc.)
2. Legal-political attributes (including zoning, covenants, easements, special assessments, or other land use codes and ordinances, etc.)
3. Linkages of site (including key relationships to networks, populations, or activity centers which might generate need for subject property)
4. Dynamic attributes of site (perceptual responses of people to site in terms of anxiety, visibility, prestige, aesthetics, etc.)

B. Improvement analysis

1. Physical (static) attributes of improvements (cataloged by type, construction, layout, condition, structural flaws, etc.)
2. Special capacities and conditions of site improvements (such as wells, bulkheads, irrigation systems, parking surfaces with unique salvage or re-use characteristics)
3. Legal-political constraints on use of existing improvements (including capacities imposed by utilities, building codes and inspection liens, fire codes, conditional use procedures, or neighborhood planning groups)
4. Special structural linkages to off-site elements (tunnels, bridges, adjoining structures, etc.)
5. Dynamic attributes of existing improvements (affecting how people relate to the property such as historical sentiment, building style, impressions created by bulk, texture, previous uses, or functional efficiency)
6. Current uses and tenancies of improvements, if any

C. Identification of plausible alternative use scenarios for subject property

D. Comparative analysis of alternative uses for fit to constraints and exploitation of marketable attributes

1. Testing and ranking of use strategies for effective demand
2. Testing and ranking alternative use strategies for political compatibility
3. Testing alternative use strategies for compatibility with physical property attributes within reasonable cost to cure

E. Ranking of remaining alternative use strategies for economic viability

F. Selection of most probable or most fitting use

- III. Selection of appraisal methodology appropriate to most probable use
  - A. Specification of most probable buyer type implied by most probable use
    - 1. Alternative buyer types and motivations
    - 2. Specification of essential site, improvement, financial, or key decision criteria of principal alternative buyer types
    - 3. Selection of most probable buyer type as basis for prediction of a sales transaction with logic for discard of alternatives
  - B. Explanation of appraisal methodology for prediction of probable purchase price of subject property assuming most probable use and most probable buyer models
    - 1. Preferred method - to infer buyer behavior from actual market transaction and market data available from sales by comparable buyers of acceptable alternative properties
    - 2. In the absence of adequate market sales data, the alternative method selected for simulation of probable buyer decision process
    - 3. The test proposed to relate probable price prediction to criteria of probable buyer profile
  - C. Search for comparable market sales transactions
    - 1. Explanation of search parameters
    - 2. Investigation of sale transaction circumstances
    - 3. Evaluation for comparability
    - 4. Definition of predominant terms of sale
  - D. Establishing basis for sales transaction comparison
    - 1. Unit of comparison
    - 2. Method of comparison
    - 3. Source of comparative adjustments
    - 4. Decision as to adequacy for inference from market transactions
  - E. Simulation of probable buyer decision process if market comparison approach is inconclusive or impossible
    - 1. Explanation of simulation model
    - 2. Schedules of simulation assumptions
    - 3. Range of alternative simulation predictions
  - F. Determination of most probable price and standard error of prediction
  - G. Correction of preliminary value estimate for external factors
    - 1. Identification of conditions relative to date of appraisal not present in market comparison assumptions
    - 2. Specification of political contingencies which might upset normal appraisal assumptions of substitution
    - 3. Identification of any violation of conditions in the definition of value by the appraisal methodology
    - 4. Indication of adjustment necessary to preliminary probable price estimate or explicit statement that no adjustment is necessary

H. Test of most probable price or value conclusion by means of:

1. Comparison to a selected alternative appraisal methodology
2. Comparison to decision criteria appropriate to issue (such as financial ratios required by mortgage lender, comparative assessments of similar property for the tax appeal board, rates of return in alternative investments, construction prices for similar property, or whatever demonstrate consistency with statement of the issue)

IV. Appraisal conclusion and supporting documentation

- A. Definition of value and value conclusion of the report
- B. Certification of independent appraisal judgment
- C. Statement of limiting conditions which establish:
  1. Contributions of other professionals on which report relies
  2. Facts and forecasting under conditions of uncertainty
  3. Assumptions provided by the client
  4. Controls on use of appraisal imposed by the appraiser
- D. Appendices and supporting legal documentation of permits, etc.
- E. Professional credentials