

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

m. "Contemporary Issues and Methods for
Appraising Commercial Properties", no
date

CONTEMPORARY ISSUES AND METHODS FOR
APPRAISING COMMERCIAL PROPERTIES

Presented by

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INTRODUCTION

- I. INTRODUCTION TO CONTEMPORARY ISSUES
 - A. Appraisal is a critical social function
 - B. Appraisal is a specialty in the rapidly evolving information business
 - C. Unlike other professions, appraisers have received little help from professional societies on the protocols and ethics of information in the computer age
 - D. Appraisal is always a benchmark to assist in deciding some basic issue
 - E. An appraisal is always a logical organization of information which requires that the issue for which it is required control:
 1. Definition of real estate interests to be appraised
 2. Definition of highest and best use
 3. Definition of market value
 4. Definition of what constitutes market comparison
 5. Definition of accounting rules for the income approach
 6. Definition of the economic context assumed
 7. Definition of buyer and seller perspectives
 8. Definition of rules for anticipating future benefits
 9. Definition of who is considered an independent observer
- II. Contemporary trends controlling purchase of appraisal services
 - A. Regulatory specifications for financial institutions and fiduciaries
 - B. Changing accounting/appraisal interface
 - C. Tougher appraisal professional organization enforcement
 - D. Development of standardized letters of engagement
 - E. Better pricing of appraisal services
- III. The process of contemporary appraisal
 - A. What is the issue?
 - B. What are the productive interests to be appraised

- C. What is the most probable use of the interests defined?
 - D. Who is the most probable buyer?
 - E. Given most probable use and buyer, appraisal methods could:
 - 1. Infer from past transactions
 - 2. Simulate pricing methods of most probable buyer
 - 3. Use normative methods
- IV. Which three basic methods of appraisal?
- A. Dilmore - order, chance and beauty
 - B. Tradition - market, income and cost
 - C. Contemporary inference, simulation, and normative economics
 - D. Concept of most probable use
 - 1. Economic feasibility
 - 2. Financial solvency
 - 3. Social justification and compatability
 - 4. Political reality
- V. Decision theory and improved techniques to the market comparison approach
- A. Decisions under conditions of uncertainty
 - B. Bounded rationality
 - C. The Dilmore/Graaskamp approach to market comparison
 - 1. Five examples
- VI. Contemporary appraisal and accounting theory
- A. Defining income for the income approach
 - B. Defining attributable to land and building
 - C. Timing income given escalation, CAM payments, and profit sharing with the tenant
 - D. Defining cash equivalent income
 - E. Errors in appraising going concern value
 - F. Errors in appraisal with inflationary projection
- VII. Contemporary models for conversion of cash flows to value estimates
- A. Implications of R41(b)
 - B. Implications of tax assessment
 - C. Implications of publicly subsidized finance

- D. Mixed real estate/serviced income such as elderly housing
- E. Need to test market value conclusion for financial reality

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CONTEMPORARY ISSUES AND METHODS FOR APPRAISING COMMERCIAL PROPERTIES

I. Introduction

Appraisal of real estate income properties is a critical social function with high ethical potential because it is a pivotal benchmark for decisions involving social equity (condemnation awards and allocation of tax burden), validation of financial institution solvency, legal governance of private contracts, and benchmarking of the efficiency of capital allocation decisions and the effectiveness of asset managers.

- A. Appraisal is a specialty in the rapidly evolving information business.
- B. The appraisal profession is compromised by weak professional organization, obsolete formats, and business customs which compromise its independence and spirit of innovation.
- C. An appraisal report can be an instrument for disinformation and a conspiracy to avoid impeding the deal-making process.
- D. The best of the appraisal business, however, has high intellectual content, has great challenge, and provides an opportunity to subsidize your market research as you look for your own deals.
- E. Appraisal at its best is a model of business forecasting and decision-making. Like all such models, it is constrained by:
 1. What is the nature of the question?
 2. What quantity and quality of data may be available?
 3. What theory or hypothesis may edit and focus the available data as a tentative answer to the question?
 4. What techniques and data management can be used reliably by the analysts?
 5. What techniques and data management have credibility with the ultimate decision maker hiring the analyst?
 6. What techniques and data management are cost effective in terms of the dollar consequences of the decision?