

JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

VII. INDUSTRY EDUCATIONAL COURSES LONG TERM

H. Northwest Center For Education

5. "Contemporary Issues and Methods for Appraising Commercial Properties, January 16, 1986, and "Pension Fund Real Estate Valuation Issues", January 17, 1986, The Registry Hotel, Dallas, Texas: Brochure only for two one-day seminars

The Emerging Role of Consulting Appraising in a Changing Real Estate Marketplace

The commercial real estate industry is undergoing tremendous change. Tax reform, lower inflation, overbuilding, longer term lease-ups, the securitization of real estate, and the growth in pension fund assets invested in real estate are major forces causing restructuring of commercial property values.

These market and economic factors have dramatic, and often misleading, effects on real property values. This places greater demands on the appraisal community. The role of the appraiser as counselor and advisor has never been so important. This provides appraisers with an opportunity for greater professionalism and profit if they are willing to shift from only traditional approaches and to add innovative thinking and new appraisal practices.

Today's real estate market requires a fresh and broad approach to real property valuation, utilizing contemporary appraisal techniques and emphasizing

identification of the issues and problems to be solved. Spend one or two days with Dr. Jim Graaskamp, the nation's foremost authority on appraisal methods, to broaden your perspective and improve your appraising skills.

The first day, **Contemporary Issues and Methods for Appraising Commercial Properties** focuses on appraisal methods. The second day, **Real Estate Valuation Issues for Pension Funds**, deals with the practical and ethical approaches to using appraisals in the valuing of pension fund assets.

You can select one or two days! Attend either seminar of your choice, or attend both days for a significant savings in seminar tuition. Seminar tuitions are listed on the back cover of this brochure along with the Registration Form or Call **TOLL FREE 1-800-426-5575** to register or for additional information. Registrations are limited so please register today!

Contemporary Issues and Methods for Appraising Commercial Properties

Thursday, January 16, 1986

Day One

8:30am - 10:00am

1. Defining the appraisal problem with the client, his attorney, and the accountant

- The issues for which the appraisal is required as a benchmark
- The exact "sticks" in the bundle of rights to be appraised
- The perspective in time, viewpoint, and going concern assumption controlling the appraisal
- The definition of value to be applied
- Responsibility for engineering, marketing or legal/political data and assumptions
- Special enhancements or encumbrances to be valued as components
- Specification as to methods, data sources and controls on use through letter of engagement

BREAK

10:15am - 12:00pm

2. Decision theory and improved methods for the market comparison approach

- The three approaches to the contemporary method
- Market inference by means of proxy patterns

- Why regression pricing is discredited
- Developing a pricing algorithm for comparable properties
- Selecting the proper unit of comparison
- The price per point per unit of comparison
- Developing a weighting system for the attribute scores
- Testing the price weighting system for best estimate of the comparables by hand or by computer
- Variations on the theme by Dilmore

COMPLIMENTARY LUNCHEON

1:00pm - 2:45pm

3. Professionalizing the income approach or investment stimulation approach

- Recognizing the significance for allocating income to real estate, personality, intangible assets or management, depending upon the issue for which the appraisal is sought as a benchmark
- Perspective and accounting: cash or accrual, normalized or simulated
- Revenue classification and projection
- Operating expense classification and projection

- Income from operations vs. cash for distribution
- Projecting increases, leakages and concessions
- Formatting the pro forma real estate operating statement
- Financial footnotes in lieu of a narrative report

BREAK

3:00pm - 5:00pm

4. Case examples of defining the issue, the method, and the accounting relevant to litigation

- Real estate tax appeal for subsidized houses
- Credit enhanced elderly housing with HODAG and income from providing support services
- Right-of-way for a power transmission line
- Partnership values in dissolution

5:00pm - 5:30pm

5. Professional status for the appraisers in litigation matters

- The vested interest of the attorney
- Counseling vs. advocacy
- Compensation relative to value of service

Seminar Instructor

James A. Graaskamp, Ph.D., SREA, CRE, CPCU, is one of the most popular and dynamic real estate instructors in the U.S. today. His presentations reflect the rare combination of real world experience and academic achievement that has characterized him as one of the industry's "original thinkers."

He has served as Chairman of the Department of Real Estate and Urban Land Economics at the University of Wisconsin for over ten years. He is currently teaching advanced appraising techniques and advanced feasibility studies.

In addition to his academic work, Dr. Graaskamp is President and founder of Landmark Research, Inc. He is also co-founder of a general contracting firm, a land development company

Dr. James Graaskamp

and a real estate investment corporation. He serves on the Board and Executive Committee of First Asset Realty Advisors, a subsidiary of First Bank Minneapolis, and is a member of the American Real Estate and Urban Economics Association.

Dr. Graaskamp is the co-designer and instructor of the EDUCARE teaching program for computer applications in the real estate industry. His work also includes substantial and varied consulting and valuation assignments such as investment counseling to insurance companies, banks and other lenders and feasibility and financial analysis of nationally known real estate development projects for a wide variety of clients.

Pension Fund Real Estate Valuation Issues

Friday, January 17, 1986

8:30am - 12:00noon

1. The case for greater standardization of appraisal and accounting reporting for asset valuation and performance measurement

- Appraisal process must respond to issues for which appraisal is required as a benchmark
 - Adequacy of pension funding
 - Entry/exit unit values of co-mingled shares in real estate pools
 - Performance of asset managers
- Traditional presumptions of appraisal standardization
 - Appraisal format imposed by U.S. professional societies
 - Appraisal format used in the Common Market
 - Appraisal format under development for imposition by American intermediary banking institutions, i.e. FHLB, FDIC, and FNMA
 - Guidelines for pension managers by NCREIF
- Current research progress of actual appraisal practices of pension real estate managers and their methodology
 - Formal pension policy, regarding appraisals
 - Selection criteria for appraisers
 - Control of appraisals for asset measurement
 - Pattern of practice revealed in actual paired appraisals from 1983 and 1984
 - Procedures and controls on internal appraisal values by asset managers between anniversary appraisals

BREAK

2. Suggested requirements for developing consistent appraisal quality and consistent performance by appraisers

- Basic components of standardization process
 - Standards promulgated by industry association
 - Written policy statement by pension fund sponsor
 - Written appraisal method statement to implement policy by asset manager
 - Letter of engagement to the appraiser
 - Explicit methodology and terminology from appraisal association

Day Two

- Standards promulgated by industry association
 - FASB and MAIs
 - Consistency with NCREIF guidelines
 - Objectives of ERISA
 - Total fee income and substantial economic ties constituting conflict of interest
 - A vacuum of appraisal standards or white paper methods
- Valuation controls imposed by pension sponsor
 - Frequency, quality, and independence
 - Parameters for projection and financial simulation
 - Responsibility for structural and mechanical engineering integrity
 - Permissible level of aggregate simulation, e.g. financial details of leases
 - Segregated accounts vs. co-mingled accounts
 - Accounting issues vs. appraisal issues: How to handle lease concessions
 - Issues of ethics and fiduciary responsibility
- Suggested formats to accomplish desired objectives

COMPLIMENTARY LUNCHEON

1:00pm - 5:00pm

3. Pitfalls to look for when reviewing an appraisal using the market approach to value

- Failure to establish the best unit of comparison between properties
- Failure to report terms of sale or quantitative adjustments for cash equivalency
- Failure to establish rules for selection and quantification of accounting patterns
- Failure to explain adjustments for differences
- Failure to report addresses and transaction details of comparables
- Other problems

BREAK

4. Need for standardized accounting formats, accounting rules, and assumptions for financial projections

- Inconsistency of discounted cash flow

concepts and appraisal pro forma accounting

- Establishing standardized financial models to handle amortizable assets and expenses such as tenant improvements, lease renewal commissions and financing charges
 - Providing the appraiser with receipt and expenditure models pre-built by asset manager for market review by appraiser. Is this an ethical issue?
 - How to integrate accounting/budgeting and appraisal forecasting while maintaining the independence of the appraiser
 - Reconciliation of appraisal and accounting issues
 - How pension fund and asset managers exercise control over appraisal valuations: Actual case examples from national study
- ### 5. Philosophies and practices of asset managers relative to internal appraisal procedures
- Alternative internal procedures and controls
 - Justification of quarterly adjustments to independent appraisals
 - Integration of capital expenditures during interim period with independent appraisers
 - Reallocation of values relative to leasehold value and investment value due to passage of time and perceived changes in discount rates
 - Should quarterly sequence of appraised value changes and source of change be indicated for each property for fund investors?

6. Suggested new ways for the pension fund industry to operate

- Establish valuation reserves reflecting potential appraisal bias to high side
- Dollar-cost-average commitments to invest or disinvest over six quarters so that two independent appraisals of total portfolio could have occurred
- Prohibit quarterly internal adjustments to value except for adjustments due to capital expenditures