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Recognition that appraisal reports are an argument - by Roger Durkin

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Successful narrative appraisal report writing is based in the recognition that the appraisal report is an argument. An argument is a set of assertions supported by logic and evidence. According to USPAP and Black's Law Dictionary, the term credible means worthy of belief. USPAP states that credible assignment results require support by relevant evidence and logic. The process is clear. The report is not a theme paper, an estimate, or an essay. The appraisal report is an argument of your professional opinion about the economic exchange value of the rights inherent in the ownership of property. The opinion is supported by logic and evidence. Most appraisers, especially those who have decades of experience think their appraisal work is faultless. After all, they claim their appraisals were performed in accordance with USPAP or the Appraisal Institute, or AICPA Standards, or a mixture of two or three appraisal association "rules." Appraisers need to question their reliance on appraisal dogma. Most appraisers abhor appraisal report criticism. Appraisers especially reject criticism of their use of traditional dogma. Dogma is part historical creed, habitual belief, and behavior doctrine as an imposed code of performance. I would start the conversation with the strong suggestion that you stop being trapped by dogma. Some dogma is archaic faith-based methodology that has not evolved. Dogma includes archaic trade terms such as function which means purpose or task and "purpose" which means resolve or drive and problem which means enigma or puzzle or conundrum. You may be steeped in this word-stew and think you know what the words mean. Your client or typical report reader does not use the same meaning. The appraiser wrote, "The problem to be solved in this appraisal is to estimate the market value of the leased fee interest in the property as is." For 50-years appraisers have tried to identify the "problem" when in reality appraisal work is not a problem to be solved, it is an issue to be addressed, a question to be answered, or an intended use to be explained. Assumed in that sentence is that the reader will understand that there is a problem to be solved. USPAP dropped function, purpose and estimate of value just about 12-years ago. Yet, the dogma continues. The term "problem" was replaced with the terms with intended use and opinion of value. The appraiser is required to identify the interest to be appraised. Leased-fee interest is not a legal interest in real property, it is appraisal jargon. The Appraisal Institute dictionary is not an authoritative source for defining a legal interest in

real property. Leased-Fee is not a fee interest. Leased-Fee is a tenancy-for-a-term. "As is" means the present existing condition to prospective buyers. Then why do appraisers say it is as is and then forecast fictitious income and expenses and ignore the present condition both physically and economically?

Dogma is living with results of other appraisers' historical thinking about appraisal theory and practice. Your attitude of habitual thinking is passed down to you and internalized. It became your dogma. Stop and think about the many myths in appraisal methodology. Just maybe some of the theories and appraisal methods you hold as sacrosanct are not reasonable, commonsensical, and or logically valid. Dogma-decrees include: (1) there are three approaches to value! And only three. The three approaches are set in stone, they are the holy trinity of appraisal. According to USPAP, you must consider all three approaches whether you are appraising real estate, an antique chair, a business, a painting, a diamond ring, or a pizza parlor. How does one apply an income approach to an antique chair? Do we pretend or say hypothetically that we rent the chair? Who rents antique chairs? (2) Dogma decrees once included requirements to include highest and best use analysis be applied to personal property. This requirement stayed in USPAP for seven years. Eventually, it was removed. (3) Dogma decree commanded that capitalization rates be based on PWC Korpacz Real Estate Investor Survey. The new dogma decrees that cap rates be based on what CBRE says. CBRE's North American Cap Rate Report. The problem with this is relevancy. Both Korpacz and CBRE obtained their data from large publicly traded real estate trusts whose financial disclosure was public. The great majority of commercial real estate does not publicly disclose net income. (4) Dogma of adjustments are based on subjective guesses even when the appraiser asserts that adjustments are based on matched pairs or a calculation of depreciated replacement value. (5) Dogma teaches that DCF method can use a forecasted Single Period Capitalization method that magically capitalizes one year's forecast of "market derived" revenue and expenses. (6) DCF forecasting using Argus Valuation Life Version software is based on nothing more than the "appraiser's belief" or inflation or made up "stabilized" expenses is voodoo mathematics.

An appraisal is a professional opinion relative to the defined economic exchange value of the rights inherent in the ownership of property supported by a preponderance of the evidence. Evidence is something that tends to prove or disprove the existence of an alleged fact. The scale is tilted 51% more likely true than not true.

The evidence that is sufficient must be also be credible, relevant, and material. Credible evidence is that evidence worthy of belief, it is trustworthy evidence. Black's Law defines substantial evidence as "evidence that a reasonable mind would accept as adequate to support a conclusion, evidence beyond a scintilla."

The iPhone was a collection of existing technologies put together in a new way. You will need to rethink, and question existing dogma and you will need to develop new skill sets. Recognize the rise of non-traditional sources of data and predictive analysis. The appraisal profession is evolving with the possibilities of things like big-data, predictive analysis and artificial intelligence. Fannie Mae is moving beyond a theoretical stage in mortgage underwriting by implemented big-data analysis and valuation algorithms. All of which will dramatically change the role of appraisers.

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