

# How to Analyze that Fee Appraisal on your Desk

Georgia Association of Assessing  
Officials

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# That Fee Appraisal on Your Desk

- Four things we should know about that fee appraisal on your desk:
  1. The appraisal is for another use
  2. The appraisal has an estimated value lower than the current assessment
  3. The date of the appraisal is not the lien date (January 1)
  4. The assessor is not the intended user of the appraisal report

# Definitions-Georgia

## 48-5-2 Fair Market Value (Georgia, OCGA)

- .1 Arm's length, bona fide sale-----, including but not limited to a distress sale, short sale, bank sale, or sale at public auction.

Further in paragraph 3:

The income approach, if data is available, shall be considered in determining the fair market value of an income-producing property.

# Definitions-Georgia

(B) The tax assessor shall apply the following criteria in determining market value of real property:

- i. Existing zoning of property
- ii. Existing use of property
- iii. Existing covenants or restrictions
- iv. Bank sales, other financial institutions owned sales, distressed sales, of comparable property
- v. Decreased value based on limitations and restrictions from conservation easement
- vi. Any other existing factors deemed pertinent in arriving at fair market value

# Definitions

## Appraisal

The act or process of developing an opinion of value as of a given date (USPAP 2010-2011 Edition)

## Appraisal Review

The act or process of developing and communicating an opinion about the quality of another appraiser's work that was performed as part of an appraisal, appraisal review, or appraisal consulting assignment (USPAP 2010-2011 Edition)

# Definitions

## Advocacy

Representing the cause or interest of another

## Analysis

A study to review and draw a conclusion from available data

## Bias

a preference or inclination that precludes an appraiser's impartiality, independence, or objectivity in an assignment

# Definitions

## Credible

Worthy of belief

## Critical

Relating to or being a state in which or a measurement or point at which some quality, property, or phenomenon suffers a definite change

## Critique

A critical examination of any subject or a review of subject matter for fact, content, and accuracy

# Definitions

## Consulting

The act or process of providing information, analysis of real estate data, and recommendations or conclusions on diversified problems in real estate, other than an estimate of value

## Reasonable

Meaning fair, moderate, or rational, having the power of logical thought. Not extreme or excessive

# Ethics Rule

## Competence

- Be competent
- Acquire the competency
  - Disclose items that need more competency
  - Gain competency and complete assignment competently
  - Communicate your steps in the report
- Decline or withdraw from assignment
- Being Competent Means
  - Proper identification of problem
  - Knowledge and experience
  - Know the applicable laws and regulations

# Ethics Rule

## Bias

Appraiser must stay impartial, independent, and objective

Bias is NOT allowed in a review assignment

## Advocacy

- Cannot represent another's cause or interest
- Advocacy is NOT allowed in a review assignment

# Important Concepts

- Test of reasonableness
- Mathematical accuracy and data analysis
- Appraisal reviewer make determinations, in respect to the appraisal problem, as to:
  - Quality and quantity of data
  - Appropriate units of comparison
  - Proper techniques used

# Important Concepts

- Quality control or auditing
- Assist decision making
- Important to carefully read the appraisal
- Reviewer must be aware of proper methods
- Develop specifications of expected items
- Document issues and recommendations
- Underwriters' standards
  - Specific net and/or gross adjustment maximums

# Definition of the Problem

- Identification of the property
  - Legal descriptions, address, parcel identification number
  - Insure that the appraisal is for the subject property
- Identification of property rights
  - Fee Simple
  - Leased Fee
  - Mineral
  - Other? (Insurance, Merger, Disposition, Divorce)
- Purpose of the Appraisal
  - Market value or is it something else

# Definition of the Problem

- Definition of Market Value
  - Does it match the statutory definition
  - For commercial properties, is it valuing the leased fee interest
- Assumptions and Limiting Conditions
  - Review Hypothetical Conditions or Extraordinary Assumptions
  - Look for typical statements such as:
    - Appraiser assumes title is good
    - No knowledge of any hidden or unapparent conditions

# Data Collection and Analysis

- Neighborhood & Specific Data
  - Items with a direct and immediate effect
- Site Data
  - Does the appraisals description match the jurisdictions
    - » Is it more reliable
    - » Can help correct errors prior to a hearing
- Improvement Data
  - Does the appraisals improvement description match the jurisdictions
    - » Is it more reliable
    - » Can help correct errors prior to a hearing

# Data Collection and Analysis

## – Comparative Data

- Cost, sales, and income data
- Financing
  - Is it typical

## – Highest & Best Use

- Statutorily H&B use or present use
- Consideration as ideal improvement
  - Level or amount of depreciation (referencing the Cost Approach)

# Application: Cost Approach

## – Cost

- Land value reasonable and consistent throughout the appraisal
- RCN
  - Sources of cost information
    - » Marshall Valuation Services (MVS)
    - » Local data?
- Depreciation
  - Prime area for mistakes or over estimation
  - Is it appropriate and reasonable
  - Is it supported and/or derived

# Application: Income Approach

## – Income

- Is the basic formula correct
- Verify net versus gross building area
- PGI and V/C Loss
  - » Is economic or contract rent used
- Are all forms of income accounted for
  - » What about Miscellaneous Income?
- Is V/C reasonable
  - » Are market level (FS) or is actual V/C used (LF)
  - » Is this amount likely to change over time

# Application: Income Approach

## – Income

- Operating Expenses

- Typical of the market
- Are all attributable to the operation of the RP only
- Include replacement reserves
  - » Does the market recognize Replacement Reserves?
- Outside sources of expense ranges
  - » BOMA
  - » Income/Expense Analysis, Apartments, Condominiums, and Cooperatives
  - » Dollars and Cents of Shopping Centers
  - » Trends in the Hotel Industry
  - » Hospitality Market Data Exchange

# Application: Income Approach

## – Income

- Capitalization Rate

- Market based or over estimated
- Market derived or band-of-investment
- Market Capitalization rate study

- » Sources

- Realty Rates
- PriceWaterhouseCoopers-Korpacz Investor Survey
- Real Estate Research Corporation
- Marcus & Millichap
- Cushman & Wakefield

# Application: Sales Comparison Approach

## – Sales Comparison

- Considerations

- Is the sale price accurate?
- Does the date of sale coincide with information on file?
- Is the source of sales information reliable?
- Do the characteristics of the sale match the jurisdictions?
  - » Assistance: qPublic/GAAO Commercial Sales Data Bank

# Application: Sales Comparison Approach

- Application of the Three Approaches to Value
  - Sales Comparison
    - Selection of Comparable Sales
      - Typically fee appraisers use sales within the last 6 months
      - No time adjustment
    - Applications of Adjustments
      - Reasonableness of the type and amount of adjustments
      - Market Conditions
      - Paired sales analysis

# Application: Sales Comparison Approach

- Application of the Three Approaches to Value
  - Sales Comparison
    - Reconciliation of Sales Comparison Approach
      - Final Step
      - Reviews quality and quantity of data
      - Number and size of adjustments
      - Review strengthens and weaknesses of sales

# Reconciliation

- Value Indications and Final Value Estimates
  - Review strengths and weaknesses of each approach to value
  - State the value for each approach
  - State the approach given most weight and the final value

# Review

- Typical procedures
  - Adequate quantity and quality of data
  - Are limiting conditions reasonable
  - Are the methodologies consistent
  - Is highest and best use supportable
  - Consistent with legislation and regulations
  - Admissible in court

# Review

- Potential deficiencies
- Inadequate explanation of wide discrepancies
- Carelessness
  - Misspellings
  - Inaccurate maps
  - Mathematical errors
  - Inaccurate sales information

# Suggestions

1. Read the appraisal report
2. The report must be reasonable
3. Review the Scope of Work
4. Validate all data in the appraisal report
5. Does the appraisal report have any gaps, assumptions, or areas where there is no explanation?
6. Does the appraisal report have data you don't have that may affect your assessment?

# Suggestions

Then: With the fee appraisal on your desk----

7. Will you make a counter offer?

8. Will you litigate the appeal?

9. What is the cost analysis?

That is-the cost to litigate

–Legal Cost

–Appraisal Cost

–Capital outlay of litigation v. savings?

# Observations & Questions

## Observations

- Continued problems
  - Unemployment (Higher than media reports)
  - Credit Crunch (FICO Scores)
  - Shadow Inventory (Residential)
  - Commercial Properties (Refinancing, Foreclosures)
    - Higher vacancies, more concessions, higher capitalization rates (Ro's) equals **LOWER VALUES**, etc.

# Questions and Maybe an Answer!

Thank you for your time this afternoon

