The Official Guide to the
Demonstration of Knowledge Requirement: General

Effective February 7, 2013
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General Information

This guide is not intended to be a textbook. It is anticipated that the Candidate has received a basic education in appraisal theory and application and has the requisite experience to complete the Demonstration of Knowledge Requirement. Reference should be made to *The Appraisal of Real Estate, 14th Edition* and to *The Dictionary of Real Estate Appraisal, Fifth Edition* for current definitions, techniques, and theoretical applications, and to the *Standards of Professional Appraisal Practice* and the *Guide Notes to the Standards of Professional Appraisal Practice* of Appraisal Institute for the most up to date appraisal requirements. Also review the Demonstration of Knowledge Requirement section of Appraisal Institute Regulation No. 1.

Appraisal Institute currently offers seven options for completing the Demonstration of Knowledge Requirement for MAI membership.

1. Traditional Demonstration Appraisal Report
2. E-Demo Report
3. Research Project
4. Defense of Reports
5. Capstone Program
6. Peer Reviewed Publications
7. Master’s Thesis or Doctoral Dissertation

The information contained in this guidebook will help you identify which may be the best option for you to fulfill the Demonstration of Knowledge Requirement.

If you have any questions, please let us know by contacting demo@appraisalinstitute.org or 312-335-4111 to speak with an Admissions counselor.
PART ONE

Traditional Demonstration Appraisal Report Option

Demonstration Appraisal Report Defined

A demonstration appraisal report is the most complete presentation of a property appraisal that an individual can produce given the limits of the individual’s abilities and the market evidence available at the time. The term, *most complete*, simply means the most concise. This is accomplished via thorough presentation of each section of the report demonstrating the Candidate’s level of knowledge and expertise.

A demonstration appraisal report and a well-prepared business report differ in one respect. The business report has a different function than the demonstration appraisal report and is written to satisfy its intended use. Therefore, some sections of a business report may be given less emphasis than other sections, and in some cases sections may be omitted or inapplicable. The demonstration appraisal report, on the other hand, is intended to test the ability of the Candidate to assemble a complete appraisal report and to handle each section thoroughly and concisely. Therefore, each important element of the report is given weight in the grading process. When the demonstration appraisal report is completed, each section is linked with the other sections to provide a continuous narrative leading to a final value conclusion.

The purpose of preparing a demonstration appraisal report is to test the Candidate’s ability to gather the necessary data, analyze the data properly, support conclusions, and write an appraisal report setting forth the analysis and conclusions, which will lead the reader to concur with the opinion of value.

Selection of a Subject Property

The most important step in preparing a demonstration appraisal report is the selection of a subject property. If a poor selection is made, it may not be possible to write a demonstration appraisal report that could receive a passing grade. Many properties do not lend themselves to demonstrating all that is required. For many properties in the market, sufficient comparable market data are not available.

If the right property is chosen, there will be ample data to prepare all segments of the report, and the work of the Candidate will be significantly easier. The Candidate can then concentrate on preparing the best demonstration appraisal report that the market data will permit.

It is suggested that the Candidate select a property use (office, multifamily residential, warehouse, retail strip center, etc.) within a community where ample market data are available. Once the use is selected, all market data available to support that use should be accumulated and given a cursory analysis. From the data available, the Candidate should select a subject property that best fits the data.
If the community in which the Candidate works has limited market activity, the Candidate may choose to investigate a nearby community that has a more active market. On the other hand, a well-supported opinion of value done on a property in a small market will be rated by the grader in that context.

The following elements must be present to qualify the demonstration appraisal report for grading:

A. First, choose from one of the following options:

1. A fundamental market analysis; or

2. An analysis of obsolescence present in the subject property (the property must suffer measurably from either functional obsolescence, external obsolescence, or both. In addition, if this option is pursued, a Level B Inferred Market Analysis is required).

B. The property selected must suffer from incurable long-lived physical deterioration. If more forms of depreciation or obsolescence are present, they must be properly treated. The breakdown method of depreciation must be applied.

C. The appraisal must analyze the effect of expenses on rents and total occupancy cost in the development of a net income stream, even if only net leases are involved.

D. The report must allow the Candidate to demonstrate appraisal techniques applicable to the three approaches to value.

E. The effective date of value can be no more than five calendar years prior to the year of submission.

F. “Market value” must be the type of value estimated.

G. The report should pertain to an “as-is” valuation; hypothetical conditions are not appropriate for demonstration report purposes.

The Physical Report
The demonstration appraisal report should be the best work of the Candidate’s career to this point. Therefore, the photographs, exhibits, grammar, spelling, overall presentation should be as professional as the Candidate can possibly produce.

The report must be submitted in electronic format, preferably in searchable PDF format.
The analytical sections of the report, which include everything after the introduction (i.e., property description and market analysis through the reconciliation and final value opinion), should provide adequate justification, support, and documentation.

**Justification** demands evidence that a statement is well founded. Justification is best provided by reference to market-extracted data. It is an explanation of how the supporting data and documentation have been interpreted to reach the conclusion.

**Support** means to verify or substantiate conclusions with as much factual data as possible. For example, a conclusion in the area analysis that there is an oversupply of office space in the community should be supported with market information and an explanation of how it was extracted and confirmed in the market.

**Documentation** is the process of providing evidence of a statement or fact. Reliable or authoritative sources should always be used and referenced. Examples of some areas of the report requiring extensive documentation are: comparable sales, income, expenses, vacancy, rate selection, cost new estimates, and depreciation.

**Market Extraction**

One of the major objectives of the demonstration appraisal report is to demonstrate the process of extracting data from the market to support, document, and justify the conclusions presented throughout the report. Some examples of extracted support data follow.

In the sales comparison approach, all adjustments to comparable sales should be market supported. The method for extracting market support can vary significantly depending on the kind of data available. Examples of market extraction may include extracting depreciation from comparable sales, which could then be applied as an age/condition adjustment in the sales comparison approach. A location adjustment could be supported by demonstrating the differences in value from one property location to another. Other means of extracting market support could include paired sales analysis, linear regression, and examining differences in income caused by varying conditions. The majority of the adjustments must be based on quantitative analysis.

In the cost approach, the cost new estimate could include estimates from the published cost services (segregated section, not calculator section) and a detailed cost breakdown prepared by a qualified building contractor. These costs can be further supported using cost comparables found in the market.

Depreciation must be supported by the breakdown method. An important part of the breakdown method is the estimate of economic life, which can be extracted from market sales. External and functional obsolescence can be demonstrated through comparisons with sales and rentals of properties with both similar and dissimilar functions and external characteristics.
In the income capitalization approach, market rent estimates can be supported with an appropriate analysis of comparable rentals. Vacancy loss estimates can be supported by conducting vacancy ratio studies of comparable properties in the area. Reference can be made to data included in the market analysis section for support.

Expense estimates can be supported with operating expenses from comparable properties. Overall capitalization rates and yield capitalization rates and can be supported by market extraction of comparable sales data.

**Exhibits**

Exhibits should contribute to the clear understanding of your written description and discussion. Place illustrations within the report where they will be most helpful to the reader. Exhibits should include, but not be limited to, the following:

- **Photographs:** Color photographs of the subject property, nearby properties, comparable improved sales, land sales (view from street and aerial), and rentals should be included along with any other scene that might be considered important to understanding the value conclusion.

- **Maps:** Maps indicating the market area, neighborhood boundaries, the location of the subject property, the location of comparable sale properties (including land sales), and the location of rental properties should be included in the report. Be sure to include a directional arrow on each map. Other maps that may be helpful could include an area map locating the subject and subject neighborhood in relation to the central business district, work centers, competing neighborhoods, and other important locational considerations, which relate to the property being appraised. Exhibits appropriate to the fundamental market analysis should be included.

- **Site Plan:** A site plan that shows lot and building dimensions, easements, the placement of the improvements on the site, and abutting rights of way is expected. The plan could also indicate the location of driveways, parking, traffic flow through the site, and any other characteristics, which would help the reader, better visualize the site. Examples of additional items to consider would be existing easements, topographical lines, and the location and identification of any excess land.

- **Floor Plan:** Include a plan of each level of the principal building, showing all room partitions, doors, windows, and relevant dimensions. The floor plan should be to scale.

**Agricultural Properties**

This guide does not include specific requirements for the submission of a demonstration appraisal report on an agricultural property. Please click here for information pertaining to an agricultural property.
Properties That Cannot Be the Subject of a Traditional Demonstration Appraisal Report

- A property that is the subject of a demonstration appraisal report used in a real estate course, clinic, seminar, or other organized appraisal learning experience.

- A property that was involved in litigation at the time the report was submitted or at the date of valuation or likely to be in litigation during the grading process.

- A property that is one- to four-unit residential units.

Definition of “Without Assistance”
The Demonstration of Knowledge Grading Panel developed the following definition of “without assistance” as used in Regulation No. 1.

Assistance should be limited to verbal advice, suggestions, theoretical explanation, references to textbooks and techniques, available literature, etc., relating to existing appraisal practice. Assistance should not include review or commentary on a demonstration appraisal report.

General Demonstration Report Grading Sheets
Find out how different Demonstration of Knowledge option components are weighted by viewing these grading sheets.

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Traditional Demonstration Appraisal Report Option Outline

The outline shown below is suggested for a demonstration appraisal report. It is highly recommended that this outline be followed closely. It is recommended, but not necessary, that the Candidate follow the exact order of the outline. Each individual segment of each section of the outline should be addressed in the demonstration appraisal report.

A. Title Page
   The title page should include:

   - Identification as an appraisal report
   - Property type
   - Property address
   - Effective date of report
   - Effective date of value
   - Name and address of the appraiser
   - Name and address of client and intended user (i.e., Appraisal Institute)

B. Letter of Transmittal
   The letter of transmittal formally presents the appraisal report. It may be addressed to Appraisal Institute or to a real client. A suitable letter of transmittal may include:

   - Date of letter and salutation
   - Street address or location of the property and a brief description, if necessary
   - Property type
   - Statement identifying the interest in the property being appraised
   - Reference to client’s request for appraisal
   - Statement of appraisal's purpose, intended use/user
   - Statement that inspection of the property and necessary investigation and analysis were performed by the appraiser
   - Statement as to the type of appraisal and appraisal report format
   - Reference that the letter is accompanied by a complete appraisal report
   - Effective date of value opinion (must be within five calendar years of the year the demonstration report is submitted)
   - Reference to assumptions and limiting conditions
   - Value opinion (written and numerical)
   - Appraiser's signature, with certificate/license number if appropriate

C. Table of Contents
   The table of contents lists the major components of the report in sequence with page references. The numbering of pages normally begins after the table of contents. Use headings and subheadings to identify the major divisions of the report.
D. Photographs
A photograph of the subject property at the beginning of the report is recommended to give the reader a mental picture of the property.

E. Summary of Important Facts and Conclusions
An outline of the report’s major points and important conclusions is recommended. Such a statement provides the reader with a convenient summary and gives the appraiser an opportunity to stress points that were considered in reaching the final opinion. Examples of items to include: site size, building size and age, zoning designation, gross rentable area, net rentable area, estimate of land value, indicated value by the cost approach, indicated value by the sales comparison approach, indicated value by the income capitalization approach, and final opinion of market value.

F. Scope of Work
Describe the extent of the process of collecting, confirming, and reporting data. This is required by the current Standards of Professional Appraisal Practice. The extent of the appraisal investigation could include details of the property inspection. In some cases, such as the appraisal of large apartment complexes, it may not be possible to inspect each individual unit. This section of the report could describe the extent of the inspection.

The appraiser should also describe the extent of the investigation such as the parameters for comparable sales and rental searches and the extent of the confirmation process.

G. Identify the Type and Definition of Value
The purpose of the appraisal must be to arrive at a supportable opinion of market value of the property in its “as-is” condition. Include definition. The most recent edition of The Dictionary of Real Estate Appraisal, Fifth Edition is an appropriate source.

H. Intended Use of Appraisal and Intended User
The intended use of the appraisal should be to satisfy the requirements of Appraisal Institute pertaining to demonstration appraisal reports. Intended users include representatives of Appraisal Institute.

I. Property Rights Appraised
The property rights appraised should be clearly identified and defined. These rights should be consistently valued throughout. Most reports value the fee simple estate; however, in some cases the leased fee estate may be chosen. It is important to remember that the property rights appraised should be handled consistently throughout the analysis.
J. Date of Value Opinion
The effective date of value is integral to the report. The effective date of value in a demonstration appraisal report must be no more than five calendar years prior to the year that the report is submitted for credit.

K. Identification of the Property
The property should be identified by a complete address, legal description, owner, and type of ownership. Other identifying remarks may also be included.

L. History of the Property
A detailed history of the property should be provided and analyzed. A minimum of a three-year sales history preceding the date of value is required. The history section of the report may include the following: original assemblage, acquisition, construction cost information, capital additions or modernization expenditures, financial data, and the dates of transfers of ownership for at least the past three years. Prior or current listings, offers, and/or contracts should also be included.

Descriptions, Analysis, and Value Conclusions

A. Property Description and Productivity Analysis

Site Data and Analysis
The site must be accurately described. In addition, the attributes of the site must be analyzed. This is the most critical aspect of this section.

A legible and dimensioned site plan or survey copy must be provided. Identify road frontages, curb cuts and interior traffic flow, the location of the building and landscaping, parking, and all characteristics that help describe the site and its present use. Other items to include should be information on easements, neighboring encroachments, or any other factor that helps graphically depict the site. This section should include the following as a minimum:

A. Site dimensions, area, and shape
B. Topography
C. Drainage, soil, and subsoil conditions
D. Access (describe streets and their adequacy)
E. Type, size, adequacy, and location of utilities
F. Man-made improvements such as walks, curbs, and drives
G. Proximity to any nuisances, hazards, or detrimental influences
H. Analysis of units of comparison
I. Flood zone and the effect, if any, on site utility
J. Easements and encroachments and analysis as to their effect on the site
K. A final conclusion as to how the site conditions affect the use of the site
Improvement Analysis
The improvement analysis should contain a detailed description of all improvements on the site followed by an analysis of these improvements as to their age, condition, physical life, etc.

Description Portion
The description portion should include the current use, architectural style, type, building dimensions, area, interior layout, structural and construction details, mechanical equipment description, and any ancillary improvements such as building and site improvements. The improvement can be described in an abbreviated outline form, in a narrative form, or in combination of both. It is suggested that a floor plan be provided here showing the building layout with dimensions.

Analysis Portion
The analysis portion should include a discussion of the age and condition of the improvements. This analysis should include an age and condition evaluation of the short- and long-lived building components. If the short- and long-lived component analysis is provided in the cost approach, a reference to that section should be provided in this section.

Since the breakdown method of depreciation must be used in the cost approach, market support for the effective age, and economic life of the building should be included here. Functional utility or inutility should be discussed and analyzed. This analysis can be continued later in the Highest and Best Use section where more specific conclusions must be developed regarding the property as improved.

B. Zoning and Land Use Plans
This section should include:

A) Zoning designation and its meaning
B) Allowable uses under the zoning including setbacks, parking, height, building coverage, etc.
C) A conclusion as to the conformity or nonconformity of the site or property as improved to public and/or private restrictions

C. Taxes and Assessment Analysis
This section should present taxes and assessment information that might affect the valuation of the subject property. The subject’s current taxes and assessed value should be presented. Any special assessments should also be discussed at this point. Taxing trends in the area of the subject property should be discussed and analyzed. A tax and assessment history of the subject property should be provided in support of that analysis. In addition, a comparison of the subject taxes and assessments with other, competing properties’ taxes and assessments should be provided to assess and support future taxes for the subject.

This section should end with a conclusion regarding the subject current and forecast tax liability.
D. **Fundamental Market Analysis (FMA)**

Market analysis is defined as a study of market conditions for a specific type of property. A complete market analysis is used to screen alternative uses as well as provide the data to test financial feasibility and the use or uses that are maximally productive. Market analysis is typically performed on four separate levels (Levels A through D). For most appraisal problems, Levels A and B are adequate. However, for the demonstration appraisal report (FMA option), a fundamental market analysis performed at Level C, and possibly Level D, is required. Levels C and D are characterized by the depth of analysis and the requirement for primary research to be done by the appraiser. Reliance on secondary data is not sufficient for this section of the demonstration appraisal report. If the Candidate is pursuing the FMA option, a thorough fundamental (Level C/D) market analysis must be performed to support an acceptable highest and best use conclusion. For the obsolescence option, an inferred market analysis (Level B) is required.

Data collection and analyses traditionally used in the regional and city and neighborhood sections are to be provided within the Market Analysis section. The six-step process for market analysis is developed in the course materials for *General Appraiser Market Analysis and Highest & Best Use*.

For additional information, refer to the course, *Advanced Market Analysis and Highest & Best Use*, and the book *Market Analysis for Real Estate: Concepts and Applications in Valuation and Highest and Best Use* by Stephen F. Fanning, MAI.

This section of the appraisal process should develop the foundation for the conclusions of highest and best use as though vacant and as improved, to be summarized in the Highest and Best Use section.
An overview of the Six-Step Fundamental Market Analysis process

**Step 1**

**Define the property (Property Productivity Analysis)**

A. Physical attributes
B. Legal and regulatory attributes
C. Location Attributes
   1. Identify economic attributes - the association between land uses and their linkages
   2. Identify movement of demand in relation to the direction of urban growth
      Analyze urban growth structure
      - Pattern
      - Direction
      - Rate
      Analyze factors influencing urban growth structure
      - Natural
      - Man-made (including adequacy and cost of utilities)
      - Political
   3. Identify competition and comparison of location advantages and disadvantages between competition and subject (Including detrimental influences, nuisances, and hazards)
D. Market Appeal Attributes
   1. Identify specific features such as design or amenities that appeal to market participants

**Step 2**

**Define the user of the property (Market Delineation)**

A. Market area concepts
   1. Time-Distance Concepts
   2. Area over which equally desirable substitute properties tend to compete with the subject
B. Delineate Competitive Market Area Geographically
   1. Define and support boundaries
C. Identify characteristics of most probable user (consumer profile)

**Step 3**

**Forecast demand factors**

A. Major demand types (Demographics Analysis)
   1. Population creates households
   2. Income creates retail-buying power
   3. Employment creates office and industrial users
B. Tastes and preferences: behavioral, motivational, and psychological factors
C. Demand Segmentation
Step 4

Inventory and forecast competitive supply

A. Existing stock of competitive properties
   1. Predominate type of development and conformity
   2. History of the area
   3. Life stage and trends

B. Potential competition
   1. Under construction
   2. Proposed competition
   3. Probable additional competition

C. Factors influencing completion of potential competition
   1. Extent built-up
   2. Land availability and costs
   3. Interest rates and most probable sources of financing including loan ratios and available mortgage rates
   4. Materials and labor costs
   5. Entrepreneurship

Step 5

Analyze the interaction of supply and demand

A. Competitive environment
   1. Range of sale prices, rents, and capitalization rates
   2. Vacancy and/or Occupancy rates
   3. Turnover in ownership/occupancy

B. Residual demand concepts

Step 6

Forecast subject capture

A. Capture rate and absorption period (specific time period)
B. Risk analysis
C. Reconciliation of market analysis conclusions for use in highest and best use analysis

In addition to all of the requirements for a Level C market analysis, this section of the report should provide the area background data pertinent to the valuation of the subject property. Consideration should be given to all significant factors in this analysis, but only data relevant to the subject property should be discussed, analyzed, and included in this section of the report.

Note that the Physical Attributes as well as the Legal and Regulatory Attributes under Step 1 should have been previously analyzed and presented prior to the beginning of this section of the report presentation.
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(i.e., in the Site Description and the Improvement Description). The Fundamental Market Analysis would therefore continue in this section with the Locational Attributes analysis portion of Step 1.

Fundamental Market Analysis identifies the interaction of the four forces on supply and demand, which in turn directly influences the value of real property. The four forces are categorized as follows:

1) Economic
2) Governmental
3) Social
4) Environmental

Identification of key points under these four major topics can help in organizing this section. Once the broad background features have been defined, narrow the analysis to the most pertinent points. Typical market behavior in the area should be the guide in determining the appropriateness of the information reported. This section should identify the economic basis for the value conclusion.

The conclusion should consist of a summary of pertinent factors affecting property values, including a forecast of future economic trends in the competitive market area. This analysis helps establish a framework for forecasting income projections, remaining economic life, and the existence of any external or functional obsolescence. This section should also include the price and rental levels of other properties that directly compete with the subject in the market area.

This section should include a map locating the relevant market area within the region or city and delineating the competitive market area boundaries. An additional map could also be helpful in graphically locating the subject property within the competitive market area. If possible, identify property uses on the map.

Avoid the canned material and flowery rhetoric found in some promotional materials. Exhibits in this section of the report can be very helpful in making relevant facts and trends clear.

This section must have a conclusion relative to the probable future of the area, general property values, and the relationship of these future conditions to the property appraised.
E. Highest and Best Use Analysis

This section of the report must be complete and thorough. This should begin with a proper definition of highest and best use and include the source of the definition.

Two separate studies are mandatory for this section:

1) A highest and best use analysis of the site as vacant
2) A highest and best use analysis of the property as improved

Highest and Best Use of the Land as if Vacant. This analysis should address four criteria. The highest and best use must be:

1) Legally permissible
2) Physically possible
3) Financially feasible (include mathematical analysis of option uses)
4) Maximally productive (with support from market data)

This analysis should end with a conclusion as to the ideal highest and best use of the land if it were vacant. If externalities exist, this analysis should include an analysis of the ideal improvement without the presence of externalities.

Highest and Best Use of the Property as Improved. This section should describe the process of comparing and contrasting the ideal improvements for the site as if vacant (developed in “as vacant” analysis) with the improvements that actually exist on the site. The result of this analysis should identify and support property obsolescence. Note: Since the highest and best use of the site as if vacant would provide for new improvements, the existing improvements (which are not new) are not the highest and best use of the site as if vacant.

With any improved property, there are three possibilities that must be considered:

1. Demolish the existing improvements and redevelop the site;
2. Continue the existing use;
3. Modify the existing use.

All basic principles of real estate valuation should be considered. The conclusion should address not only the optimum use, but also timing (capture/absorption), and market participants (user of space/most probable buyer).

Mathematical support must be provided for conclusions as appropriate.
F. The Valuation Process
Briefly explain the theory of each approach and outline how the approach will be handled in the appraisal process. The economic principles could be quoted with an explanation of how they apply to the appraisal process. The section should end with an explanation of the reconciliation process. Note: the introductory material may be included at the beginning of each approach rather than as a separate section.

G. Cost Approach
The cost approach is divided into three segments: the land value opinion, the estimate of the cost new of the improvements, and the depreciation estimate. The cost approach is also known as the summation approach because at the end the three segments are brought together to derive an indication of value.

1) Site Valuation
The best method for estimating land value is via analysis of verified comparable vacant land sales. The sales should be reduced to appropriate units of comparison. The value of the land or site should be estimated as if the site were vacant and available for its highest and best use. Each comparable sale should be briefly described. The description must include the following data for each sale:

- Location
- Land area
- Dimensions
- Selling price
- Unit selling price
- Date
- Grantor (complete name)
- Grantee (complete name)
- Use at time of sale and current use
- Zoning
- Recording data
- Financing
- Name and phone number of person with whom sale was verified
- Other relevant data

The report must include a photograph (view from street level) of each sale and a map showing the location of the sales relative to each other and to the subject property.
Each sale must be analyzed with regard to the recognized elements of comparison:

- Property rights conveyed
- Financing terms
- Conditions of sale
- Market conditions
- Location
- Physical characteristics

All adjustments must be market supported and demonstrated, not just discussed narratively. Show all calculations.

Quantitative adjustments are required. A properly structured summary of the adjustment process is required.

This section should end with a reconciliation of the comparable sales into a final land value opinion.

2) **Cost New Estimate (Current Reproduction Cost)**

The cost new estimate should be developed from at least two independent sources. Current *reproduction* cost is required. If a cost service is used, the source material must be specifically identified and the process demonstrated. Remember that the calculator section of the *Marshall Valuation Service* provides replacement costs, not reproduction costs. It is important to remember to include indirect costs of all types, entrepreneurial incentive, and the direct and indirect costs of all site improvements in the total cost new.

If cost estimators or contractors supplied cost figures, their expertise must be established. If reference is made to recently-completed comparable structures, they must be photographed, identified, and analyzed with appropriate adjustments to the property being appraised.

3) **Accrued Depreciation Estimate**

The breakdown method must be used. For a property to qualify for grading as a demonstration appraisal report it must suffer from incurable physical deterioration (long-lived) and all forms of obsolescence that are present must be correctly identified and properly measured. If curable physical depreciation is present, it must be analyzed in the report. The report must demonstrate the appraiser’s ability to estimate depreciation factually from market data. If more than one form of obsolescence is present, they must be treated factually based on market data. The estimate of depreciation must be substantiated with market support.
Finally, the computations in the cost approach must be shown. This includes an estimate of the total cost new of the improvements, an itemized breakdown of accrued depreciation and support there for, and deduction of total depreciation from the total cost new to indicate the depreciated improvements value. To this figure land value is added.

This section must end with an indication of value derived by the cost approach.

H. Sales Comparison Approach

This section should begin with a brief discussion of the criteria used in the selection of comparable sales. The comparable sales should be described in detail. The description must include:

- Address/location of sale property
- Size of property (land and improvements)
- Other descriptive information
- Selling price
- Unit selling price (may be more than one)
- Grantor
- Grantee
- Recording data
- Date
- Financing
- Name and phone number of person with whom sale was verified
- Marketing time/history
- Intended use
- Motivation
- Other significant data also should be included, including the age and condition of the improvements, income, vacancies, and other verified facts such as past expenses, refurbishing costs, and land and building ratio.

The report must include a photograph of each sale and a map locating the sales relative to each other and to the subject property.

Sales should be presented on an adjustment grid that demonstrates all supportable adjustments. All adjustments should be market supported and computations leading to the concluded adjustment must be provided in the report, not just discussed. Each sale should be analyzed with consideration of the recognized elements of comparison:

- Property rights conveyed
- Financing terms
- Conditions of sale
• Market conditions
• Location
• Physical characteristics and economic characteristics

This approach should end with reconciliation of the value indications derived from the comparable sales after adjustment. The reconciliation should end with a final indication of value by the sales comparison approach. If the property suffers from curable physical deterioration or obsolescence, these losses must be properly and consistently handled without double-depreciating.

I. Income Capitalization Approach

The first step in this approach is to present the property’s actual income history. If possible, a three-year history of rents should be obtained along with the current rent roll. The amount of detail reported will depend on the property. Review and summarize existing lease(s). The details of existing leases could be placed in the addenda.

When reporting comparable rentals, the following information must be provided:

• Date of lease
• Term of lease
• Rental rate
• Size of space
• Rental unit of comparison
• Conditions of lease (expenses paid by landlord and those paid by tenant)
• Other significant conditions confirmed about the rental property

The rental data presented should include a photograph of each rent comparable and a rental map locating the rentals and the subject property.

Using units of rental comparison and actual rental transactions, estimate the current market rent for the property being appraised. This approach must be handled properly, recognizing the type of estate being valued (e.g., fee simple, lease fee) as stated in the introduction to the appraisal report. Using actual market rentals, adjust for major differences between the rentals and the property being appraised, based on market support. Rental comparisons must be presented in an adjustment grid summary. There is to be market support and justification for the adjustments and an adequate explanation. Project the subject’s future gross income potential at market or contract rent depending on the type of estate being valued.

Vacancy and collection loss must be estimated. A survey of similar properties in the area should be conducted to estimate potential vacancy and rental losses. The results may be detailed here or summarized from the market analysis section. The subject property’s past vacancy and collection losses should be presented. Background information developed in the area, region, and neighborhood sections should be used as additional support for the projected vacancy loss.
Show the itemized statements of past expenses for the property being appraised, if they are obtainable. The past expenses of the property being appraised should be compared item for item with the expenses incurred by similar properties in the area. From this information, project the stabilized fixed and operating expenses anticipated for the property being appraised.

Replacement reserves must be estimated for short-lived items. Show all computations (may be in this section or summarized from the cost approach). Reserves for the subject property, after computation, should be handled consistent with market practices for the subject property type in the relevant competitive market area. With the previously estimated figures, develop the estimated net income for the subject property.

If the property functions in a net lease market, all expenses must be properly estimated, supported, and allocated between landlord and tenant. The necessary expenses paid by the lessee must be discussed individually, in the same manner and with market support, as if the property were leased on a gross basis. Since a lessee can choose from any of a number of potential rental options, the process of selection would include not only the net rental due but also the lessee’s expense liability for each potential option location.

Outline a reconstructed operating statement for the subject property that includes total potential gross annual income, vacancy and collection loss allowances, effective gross income, all expenses, and net operating income.

The selection of a capitalization method depends on the appraisal problem. Direct capitalization is expected in demonstration appraisal reports; yield capitalization, if applicable to the subject property valuation and well supported, is an acceptable option as an additional capitalization method. Direct capitalization rates must be developed from sale data. The summation method is not sufficient by itself, and the band-of-investment technique must be supported by market data. While other capitalization methods are not discouraged, selecting an appropriate property for a demonstration appraisal report will usually result in a value that can be supported by direct capitalization.

If there is surplus income because of excess lease rental or a lease percentage clause, this income must be explained and properly treated. If the income stream is below market level, it should be explained and properly treated in valuing a leased fee interest.

If income depends on capital expenditures, make the appropriate adjustment. If the income includes personal property, show and support value allocations to the real and personal property. If the property suffers from curable physical depreciation or functional obsolescence, make appropriate adjustments.
Derive a value estimate and justify capitalization method(s) and techniques selected. Include a discussion of why one or more techniques were used and others were not.

It is not acceptable to base the overall rate utilized in direct capitalization from an analysis of comparable sales for which the income and expense data are estimated by the appraiser. An additional data set of sales that are actually leased may be needed to provide data for an overall rate analysis, if the sales utilized in the Sales Comparison Approach are not leased.

**J. Reconciliation and Final Value Opinion**

The purpose of reconciliation is to complete the process of correlation, which has taken place throughout the report, and to develop the value indications derived in the approaches into a final opinion of value. Reconciliation is a discussion that analyzes the quantity and quality of the data examined in each approach. This analysis includes examination of the strengths and weaknesses of the three approaches and the relevance they have to the property being appraised and the appraisal problem. It is not a restatement of methodology presented or analysis within the report.

Explain any wide discrepancies. It is not necessary for the results of the three approaches to be close numerically. Apply sound reasoning to the facts and interpretations that lead to the final opinion, keeping in mind the definition of value and the intended use and intended users of the report.

**Certification and Addenda**

**A. Certification**

A signed certification must be included in the appraisal report. The certification must conform to the wording set forth in [Code of Professional Ethics of the Appraisal Institute](https://www.appraisalinstitute.org) and [Standards of Professional Appraisal Practice](https://www.appraisalinstitute.org). Click here for [sample certification statements](https://www.appraisalinstitute.org).

**B. Assumptions and Limiting Conditions**

Assumptions and limiting conditions in the demonstration appraisal report generally follow the certification. See [The Appraisal of Real Estate, 14th Edition](https://www.appraisalinstitute.org) for suggested wording, appropriate standard conditions, and examples of general assumptions and limited conditions.

Any factors peculiar to the assignment in question should be fully explained. Hypothetical conditions are not appropriate for demonstration report purposes.

**C. Qualifications of the Appraiser**

Qualifications should be listed in a brief and concise fashion.
D. Addenda
Addenda are supplements to a report and may be used to avoid interrupting the narrative. Data that pertain directly to your narrative, such as comparable sales data, other market data, maps, and sketches, should be included in the body of the report unless they are overly lengthy. The addenda should include any necessary supplementary exhibits, such as:

- Additional photographs of the subject property. When possible, include pictures of items of curable depreciation, and interior views to help the reader visualize the property.
- Photographs of nearby properties referred to in the report.
- Maps of secondary importance.
- Statistical data, other similar study results, related to subject property.
- Any additional supporting data referred to in the body of the report.

E. Additional Important Information
The rules pertaining to demonstration appraisal reports are set forth in Regulation No. 1. They include, but are not limited to, the following:

- The date of value in the report must be no more than five calendar years prior to the year the demonstration appraisal report is submitted for credit.
- The general demonstration appraisal report must relate to income-producing real estate. If a multi-family property is appraised, it must contain at least five units.
- The property chosen must allow the appraiser to demonstrate all three approaches to value and the property must suffer from incurable physical deterioration.
- All appraisal data contained in the report must be factual.

You are required to certify that you personally and without assistance assembled all of the data used in preparing the appraisal, analyzed the data, formed the conclusions, and prepared the appraisal report. You must also certify that the appraisal and the appraisal report comply with the requirements of Regulation No. 1, the Standards of Professional Appraisal Practice of Appraisal Institute, and the Code of Professional Ethics. If the demonstration appraisal report is found to be nonfactual or not the Candidate’s own work, it will not receive credit. The Candidate will then be required to submit another demonstration appraisal report on another subject or another Demonstration of Knowledge Requirement option.

Things to Do

- Explain your reasoning completely, yet concisely. Conciseness is important. Too many Candidates tend to write more lengthy reports than are actually needed.
- Put directional arrows indicating north on maps, plats, and aerial photos.
• Give sources of all definitions. Use current references.

• Prepare professional exhibits.

• Consider the effects of any adverse conditions noted on the subject property and treat consistently throughout the approaches to value.

• Remember that the factors affecting the property appraised in one approach must be considered in the other two approaches. Focus on consistency throughout the report. This includes appropriate treatment of all sources of losses in value.

**Things Not to Do**

• Do not fabricate data.

• Do not rely on unsupported assumptions, conclusions, or opinions.

• Do not rely on outdated material.

• Do not use formats from demonstration appraisal reports prepared several years ago.

• Do not select a new, or almost new, property that will not give you an opportunity to measure incurable long-lived depreciation.

• Do not adjust gross rent multipliers.

• Do not fail to include a Level C market analysis if pursuing the FMA option.

• Do not conclude that the present use is the highest and best use of the property simply because it conforms to other improvements in terms of zoning.

• Do not express opinions or conclusions based on estimates with an unrealistic degree of precision. Use good judgment and round appropriately.

• Do not use statements such as “Based on my experience and knowledge...” or “Knowledgeable people in the area say...” to support your adjustments. They are unacceptable.

**THIS GUIDE DOES NOT NULLIFY, AMEND, OR IN ANY WAY CHANGE THE REQUIREMENTS SET FORTH IN APPRAISAL INSTITUTE’S BYLAWS AND REGULATIONS.**
FAQs: Traditional Demonstration Appraisal Reports

General Considerations

1. **Why are demonstration reports required?**
   Preparing a report demonstrates the Candidate’s ability to focus appraisal theory and principles on a specific appraisal problem and develop an acceptable solution. A report can determine whether a Candidate has attained the level of performance necessary for Designated membership in Appraisal Institute.

2. **May others help me prepare my demonstration appraisal report? To what extent?**
   Others may help by typing or word processing the report, and proofreading the copy for spelling or grammatical errors. All of the writing, analysis, numerical calculations, and conclusions must be your own. It is unethical for a Designated member or Candidate of Appraisal Institute to correct your demonstration report prior to submission.

3. **What happens if Appraisal Institute discovers that a demonstration report is entirely or partly the work of another? What if the facts have been fabricated?**
   By signing the application, the Candidate certifies that the report is his/her own work and that the report complies with the requirements of Regulation No. 1. and the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute. If this statement is found to be untrue, credit will be rescinded, and the Candidate will not be allowed to base any new submission upon the same property. Fabricated data will also result in the loss of credit for the report.

4. **When are reports sent back to a local representative for verification of the factual data?**
   When a demonstration appraisal report meets technical requirements, it is sent to a local representative appointed by the Chair of the Demonstration Appraisal Grading Panel (or delegate) for factual verification. The local representative does not re-grade the report.

5. **How far back can the effective date of value be?**
   The effective date of valuation of the demonstration appraisal report may be no more than five years prior to the year the report is received.

6. **If I have written a passing demonstration report for another organization, will Appraisal Institute accept it?**
   No, Appraisal Institute does not grant reciprocal credit. To receive credit toward SRA or MAI Designated membership, the demonstration report must be prepared for, but not necessarily addressed to, Appraisal Institute.

7. **May I submit a demonstration report on a property that I own?**
   Yes, with proper disclosure and the ability to complete the assignment objectively and credibly.
8. **How can I ensure that my report qualifies for grading?**
   Make sure that your report includes all three approaches to value, and that the report demonstrates the proper methods of handling physical incurable deterioration (long-lived); that is, the property cannot be new, and the report must contain a marketability study at the appropriate level for the option selected. A report can be disqualified if it is not signed, or if a required section is omitted.

9. **May I submit a demonstration appraisal report on a property subject to a net lease?**
   Yes, you may value this property, but all applicable expenses must be analyzed because the income capitalization approach must account for the effect on net rent of all expenses, whether they are the responsibility of the owner or the tenant.

10. **Must I appraise the leased fee interest in a leased property?**
    No, but the interest appraised must be clearly disclosed, and the specifics of the lease must be discussed along with a statement of the effect, if any, of the lease interest on the fee simple unencumbered value of the property. You may appraise any interest in the property that is appropriate, with disclosure.

11. **Must I follow the format suggested in The Official Guide to the Demonstration of Knowledge Requirement: General?**
    No, you need not follow this format, but do refer to the form for content. You may use whatever format seems logical, e.g., it may be practical to put the approaches in a different order.

12. **How do I resolve the contradictory information on methods and techniques that I may have received from various texts, teachers, seminars, and other sources?**
    No grader will dispute the authority of current edition of *The Appraisal of Real Estate, 14th Edition*. If you think a method or technique used in your report may be controversial, help the grader by citing your source.

13. **How long should the report be?**
    Most demonstration reports are too long. Understandably, Candidates are reluctant to risk being downgraded for omissions or insufficient explanation. Although some people are able to write completely and succinctly, others find this very difficult.

    Experience shows that reports often run long due to redundancy, the inclusion of extraneous material, and misunderstandings about what the problem is and how it should be solved. Most writers use too many words when they should strive for the best words.

    In preparing a demonstration report, select a subject property that lends itself to the demonstration process (take-home examination). Build the report correctly, using only relevant information. Try to anticipate and satisfy the reader’s questions, but do not repeat yourself.
Search for the best ways to get your message across, which may involve exhibits and photographs.

Sharp editing and writing skills are needed to prepare a report. If you cannot structure the narrative logically, you are not ready to write a demonstration report. Remember, the skills needed to write a good demonstration report may lag behind the ability to appraise the property in question.

14. Should a property in litigation or one that may be involved in litigation during the grading process be the subject of a demonstration appraisal report?
No. There may be legal and confidentiality issues.

15. How do I select a subject property or market area?
Before selecting a property, gather market data and other information. Choose a property that will allow you to demonstrate your ability to make use of market data in applying all three approaches and arriving at a value conclusion.

16. What advice would you offer to someone who is contemplating writing a demonstration appraisal report?
First, read and follow The Official Guide to the Demonstration of Knowledge Requirement: General. Then, select a type of property with which you are familiar. Make sure you have the necessary experience and adequate market data. Next, select a specific subject, and define the appraisal problem to be solved. Finally, write and submit your appraisal report.

Technical Considerations

17. How should data previously included in regional, city, and neighborhood sections be presented?
All of the items previously addressed in the regional, city, and neighborhood analyses should be in the market analysis section.

Be careful to avoid an abundance of disorganized data researched or compiled by others. Do not include a history of the area or detailed statistics that are not relevant to the problem at hand.

The conclusions presented in the market analysis section of the report should alert the reader to any potential economic or external problems or benefits that could affect the subject property. Often, the remaining economic life of the subject property can be illustrated in this section.

18. What is meant by the levels of market analysis?
The primary distinction is in the depth and detail of the analysis and in the difference between primary and secondary data. Levels C and D require that the supply and demand data analyzed
and presented in that section be derived by the appraiser, not summarized from studies done by others. Levels A and B refer to an inferred analysis (see material in Part One).

Other specifications and requirements are provided in the materials for Appraisal Institute course *Advanced Market Analysis and Highest & Best Use*.

19. **What problems may be encountered in estimating effective age and economic life?**
   
   Too often, effective age and economic life are presented as unsupported conclusions or conclusions based on the statements of others.

   Effective age is an observable judgment based on inspection and knowledge of property maintenance and the capital improvements made to the property. The conclusion of remaining economic life, however, can be supported using one or more techniques of market measurement. This fundamental statistic cannot be adopted from a cost manual of broad national averages; it is a function of the local market. If the property’s remaining economic life is not carefully measured or reasoned, this weakness will permeate the rest of the report.

20. **If the property I am appraising is an office building in an office park, do I need to include a detailed discussion of highest and best use?**
   
   Yes, it may seem obvious, but in a demonstration report, the obvious must be analyzed, reasoned and verified. The definition of highest and best use that is used dictates how the rest of the section is presented. First, the site use must be analyzed as if vacant, then the property must be analyzed as improved. Economic, physical, and legal considerations that would affect the vacant site can be covered briefly. Site measurements can be presented, and the site’s appropriateness for possible uses can be discussed. Option uses must be studied to provide specific support for the “ideal” use for the site as though vacant.

   After concluding the proper type of use, the degree to which the actual improvements meet this ideal can be discussed and differences can be shown. Because of the requirements of the demonstration report, the existing improvements will not represent the optimum use of the land as though vacant.

21. **What problems may be encountered in the site value section?**
   
   Use of an insufficient number of sales can hamper analysis. Also, using sales that are too similar to the subject site can hinder site valuation. Part of the answer, of course, lies in selecting an appropriate subject property and using the most comparable data available. If this section does not fully demonstrate your abilities, later sections surely will. Be thorough and consistent in adjusting the comparable sales to the subject property. It is imperative that you extract adjustments from the comparable sales to support the indicated site value for the subject site.
22. Would an adjustment for market conditions be made before any other adjustments?
Not necessarily. Sometimes an adjustment for financing or conditions of sale must be made before a time adjustment is logical or applicable. Refer to the current edition of The Appraisal of Real Estate for more information.

23. May I use a cost manual to estimate current construction cost?
Reproduction cost is a requirement of the Traditional Demonstration Appraisal Report option. Replacement cost may only be used in the Three Appraisal Report Option. When using a cost manual in a Traditional Demonstration Appraisal Report option, be sure to use the section of the manual that provides reproduction cost new (current construction cost of an exact replica), not replacement cost. The Marshall Valuation Service calculator cost section is replacement cost; the segregated cost section can be helpful in developing an estimate of reproduction cost.

Graders strongly suggest supporting the estimate with an alternate source such as the cost of recent comparable properties, a contractor’s bid, or updated actual costs. Whatever source(s) you use, be sure to explain what the estimate does and does not include, such as architect’s fees and other indirect costs, entrepreneurial incentive, and site improvements costs.

24. Do I have to have two forms of depreciation?
This depends upon which option has been chosen. Under the obsolescence option, the subject property must suffer from at least one form of depreciation (physical long-lived incurable) and a form of obsolescence (functional or external, curable or incurable). Under the FMA option, the subject property must suffer from at least one form of depreciation (physical long-lived incurable), and all forms of depreciation that are present in the property must be adequately identified and properly addressed in all three approaches to value.

25. What mistakes are commonly made in calculating depreciation?
A Candidate may fail to account for some form of functional or external deficiency that was clearly described or intimated in early sections of the report. Another individual may depreciate an item and then double depreciate it in the steps that follow. An error can be made by concluding that functional obsolescence is either curable or incurable when the data presented in the other two approaches contradicts this conclusion.

When age/life depreciation is derived from comparable sales, some appraisers fail to establish that the proportion of short-lived items to long-lived items in the comparable sales is similar to this proportion in the subject, or if the proportions are dissimilar, they fail to break down these items in the sales. When depreciation is supported by sales, some appraisers fail to account for similarity or dissimilarity in construction.

Sometimes an appraiser may report small amounts of deferred maintenance, which would be imperceptible in market transactions. Accrued depreciation is market-oriented in all categories. If
the appraiser has penalized the subject property with a type of depreciation that the rest of the market data does not recognize, the property probably doesn’t have it either.

26. May I use the depreciation schedules listed in cost manuals?
No. Depreciation is a function of the market, and, therefore, it is reflected only by local market actions. Cost manuals deal with national averages, which may or may not apply in your subject area and are not acceptable in the demonstration report.

27. What mistakes are commonly made in the sales comparison approach?
Some appraisers fail to extract adjustments from the comparables before comparing the sales to the subject. This almost always results in adjustments that are subjective rather than objective and that are not market-supported.

Appraisers need to measure differences using paired data analysis. It’s important to use the unit or units of comparison that are actually used by participants in the market (e.g., dollars per square foot of building area or dollars per unit).

Appraisers should not adopt costs as the basis for adjustments unless they clearly establish that market participants would view the issue in this way. Adjustments must be abstracted from market data.

Appraisers may fail to account for the impact of nonconventional financing on the value of the comparables, considering only those factors that affect the seller or the buyer. Sometimes appraisers do not appropriately or adequately adjust the sales for depreciation, excessive vacancy, or income below market level—which exists in the subject property but not in the comparables, or vice versa.

28. What are the most common oversights or deficiencies in using the income capitalization approach?
Some reports may not show the causes of vacancies in rent comparables and the causes for the variations in rent. Other reports rely on estimated income and expense data. Actual data is required for the demonstration report. Sale comparables must be adjusted to include all the appropriate categories of expenses, so that capitalization rates can be more accurately measured.

Discounted cash flow procedures are best suited to leased fee valuations of properties that have multitenant leases with varying terms, rates, and conditions. The discount rates for these procedures and the overall rates used for reversionary values must be supported in the market.

If other capitalization techniques are used, all rates must be supported by market data.

The reasons for using one or more capitalization techniques should also be discussed.
29. What should I address in the reconciliation and final opinion of value section of my report?
Do not repeat the analysis presented in other sections of the report. Rather, explore the inherent strengths and weaknesses of the approaches, show how they are interrelated, and establish which is the strongest (best supported) and/or most recognized in the market. The conclusion should relate to the strongest approach; or, if two approaches have equal weight, the conclusion should fall between the two approaches. Avoid the appearance of adopting an average as your conclusion.
PART TWO

E-Demo Report Option

Introduction and Overview

As an enhanced learning experience of the traditional demonstration appraisal report, the E-Demo option may be selected by a general Candidate for Designation. The E-Demo follows the same policies and procedures as the traditional demonstration report option. The general Candidate is paired with an Advisor or Advisors. Each section of the report is reviewed by the Advisor prior to final submission of the demonstration report to assess strengths and weaknesses of the report.

Similar to that of the Traditional Demonstration Report, the Candidate will choose from one of the following options:

1. A fundamental market analysis; or
2. An analysis of obsolescence present in the subject property. The property must suffer measurably from either functional obsolescence, external obsolescence, or both. In addition, if this option is pursued, a Level B Inferred Market Analysis is required.

Eligibility

To be eligible for the E-Demo Report option, a general Candidate would need to have:

- Pass all required courses and/or exams;
- Complete the college degree requirement;
- Attend the General Demonstration Appraisal Report Writing Seminar within the two years; and
- Complete the Initial Standards and Ethics requirements.

Before a general Candidate receives permission to work with an Advisor, the general Candidate would need to summarize initial research on the subject property that indicates the property is appropriate and that sufficient data exists.

Once the general Candidate receives permission to proceed, the general Candidate would then complete the various sections, which are listed on the next page.
Policies relating to the E-Demo Option
The demonstration report must be prepared by the general Candidate without appraisal assistance or revision by another person. The report is divided into six sections:

1) Section 1: Introduction (cover page through improvements)
   - Description analysis and conclusions
   - Site data and analysis
   - Description and analysis of improvements
   - Zoning, taxes, and assessment analysis

2) Section 2: Market analysis and highest and best use analysis

3) Section 3: Land valuation and cost approach

4) Section 4: Sales comparison approach

5) Section 5: Income capitalization approach

6) Section 6: Reconciliation

Each section must be completed and submitted to the Advisor to be reviewed in stages. The Advisor assesses the strengths and weaknesses of each section and provides a review, as well as, access to resources for each section as needed. The Advisor must determine that a section is “qualified to grade” before the general Candidate can submit another section. A general Candidate has six (6) months to complete the process and submit the final report.

Primary Responsibility
The applicant must be the sole author of the report submitted. The applicant must not have received assistance, review, or correction related to demographics, market analysis, descriptive information, data, analysis, and conclusions. Working with the E-Demo Advisor is not “significant real property appraisal assistance” as defined for this purpose.

Sole Signatory
The general Candidate must be the sole signatory to the completed demonstration report prepared as part of the E-Demo process.
Guidelines

The most concise and detailed guidance for completion of this option is provided in E-Demo Application Requirements and Process Overview.

Grading

A. Grading Policy

The E-Demo report will be graded in the same manner as the traditional demonstration report option to determine whether the general Candidate has demonstrated the requisite level of knowledge, understanding, and application of appraisal principles, practices, and procedures required in the demonstration appraisal report.

B. Procedures

The procedures for grading appraisal reports submitted under this section are as follows:

Under the E-Demo option, each section is submitted to the Advisor when completed for review and/or revision. When all of the sections have been completed, the final report will be graded in its entirety, and the report will be submitted for the factual verification process.

C. Field verification

After the Advisor determines that the appraisal reports meet the technical requirements, the report may be processed for “factual verification before a decision is made whether to grant credit.” Local representatives, appointed by the chair of the Demonstration Appraisal Report Panel (or delegate), may conduct a “field verification of information contained in the appraisal reports” and in the general Candidate’s application for credit.

If an application for credit is not factual, or if an appraisal report contains appraisal data that is not factual, then the general Candidate may neither submit the appraisal report for regrading nor revise the appraisal report. “The general Candidate may submit a substitute appraisal report for grading that was developed after the date of the grader’s critique.”

General Demonstration Report Grading Sheets

Find out how different Demonstration of Knowledge option components are weighted by viewing these grading sheets.

Next Page
Responsibilities of Applicant

“All appraisal data contained in the appraisal reports submitted for credit must be factual.”

A) The general Candidate must attest to his/her primary responsibility in the application for credit for

1) Assembling the data
2) Analyzing the data
3) Forming the conclusions
4) Preparing the appraisal reports submitted

B) Assistance
In preparing the appraisal reports, the general Candidate may receive assistance in matters: such as

1) Photography
2) Drawings
3) Typing, spell-checking, and word processing

C) Credit
“Appraisal reports that receive credit as an option to the demonstration appraisal report may be listed toward the required number of hours of experience, but (these reports) may not be selected by the general Candidate or the Screener for review.”

Next Page
FAQs: E-Demo Report Option

1. **What is the time frame for completion of an appraisal report under the E-Demo option?**
   The general Candidate must commit to completion of the assignment in six months. This can be extended for just cause by the Chair of the General Demonstration of Knowledge Panel. Extensions may be subject to additional fees for the Candidate.

2. **How are the requirements for the report for the E-Demo option different/similar to those for a traditional demonstration report?**
   The requirements are essentially the same. The process for preparation of the report is different, and the grading procedures are different.

3. **Is it true that a section can be revised several times until it is approved by the Advisor?**
   This is true; however, there is a fixed time frame for the process, and the report will be graded in its entirety to ensure internal consistency upon completion.

4. **Is there a required order for submission of the report sections?**
   Approval of the order of submissions is agreed upon by the Advisor and the Candidate.
PART THREE

Research Project Option

Introduction and Overview
As an option to the Demonstration of Knowledge requirement a general Candidate of Appraisal Institute may submit a research project. If you want to submit a proposal for a research project, start by reading the Research Project guidelines and application.

You must have sole professional responsibility for the development of the Research Project. You must personally and without assistance define the problem, develop the analysis, formulate the conclusions, and prepare the Research Project.

The Research Project Proposal: Documentation and Procedures
Applications should provide a great deal of detailed information. Much of the work on the total project should go into the proposal.

In those instances where the proposed Research Project is intended to expand the Body of Knowledge, the application should include, at a minimum:

1) An exploration of why the proposed topic/hypothesis is important, what might be the implications of the findings, and what applications there might be for the results.

2) Complete consideration of the processes of discovery, application and integration of the results of the research.

3) Preliminary analysis and research into available resources including a thorough review of what work has previously been done by others in the particular area of research.

4) Literature review.

Next Page
In those instances where the proposed Research Project is a consultation prepared in accordance with the current version of the Uniform Standards of Professional Appraisal Practice, the application should include, at a minimum:

1) A detailed description of the property or properties that are the subject of the consultation.

2) The nature of the consultation assignment.

3) The scope and intended use of the consultation.

4) The methodology proposed to accomplish the consultation.

Research Project Proposal Submission Requirements

1) The proposal must be written in standard business English (unless otherwise approved by the Chair of the Admissions Committee), such that it can be understood by the grader, using terminology from the current versions of *The Appraisal of Real Estate*, and *The Dictionary of Real Estate Appraisal*.

2) The proposed Research Project must involve a practical real estate economics related topic/problem (not including one- to four-family properties).

3) The proposal must identify in sufficient detail the topic/thesis to be researched such that the project will demonstrate a thorough understanding of real estate economics.

4) The proposal must identify in detail the proposed methodology.

5) The proposal must identify in detail proposed resources and any possible applicable source literature. A bibliography should be included.

6) The proposal must outline the independent/original or primary research to be done. The Research Project Proposal may be supported by secondary research to assist in documentation of the proposal.

7) The proposal must set forth the proposed time frame for completion of the Research Project, not to exceed one year from the date the Candidate is notified of the approval of the proposal.
Initial Responsibilities of Grader upon Receipt of Topic Proposal

1) The grader is strongly advised to seek academic or specialty advice if the proposal is intended to expand the body of knowledge.

2) The grader will make one of the following recommendations:
   a) Accept the proposed topic
   b) Decline the proposed topic
   c) Recommend modification and resubmission of the proposed topic

Research Project Requirements

1) The Research Project must be written in standard business English (unless otherwise approved by the Chair of the Admissions Committee), such that it can be understood by the grader, using terminology from the current versions of *The Appraisal of Real Estate* and *The Dictionary of Real Estate Appraisal*.

2) Research Project must be “self-contained” that is, complete and thorough. The document must include the entire body of research data and analyses utilized to support the conclusions.

3) The Research Project report must be consistent with approved methodology of the Research Project proposal and be submitted within the approved time frame.

4) The Research Project report must contain, at a minimum:
   a) An introduction/overview
   b) A definition of the problem
   c) Research methodology
   d) Presentation of data
   e) Discussion of analyses and findings
   f) Conclusions

Submission of the Research Project to Appraisal Institute for publication is optional at the discretion of the author, upon receipt of a passing grade as an option for the general Demonstration of Knowledge Requirement. If the project is published, the Candidate may make
no representations of acceptance by Appraisal Institute and may not mention Appraisal Institute’s acceptance of the report as a part of the general admissions requirements.

Procedures for Review of Research Project

1) One copy is sent to a grader.

2) The grader’s decision to accept or revise is based on traditional demonstration appraisal report grading process.

3) If the Research Project must be revised, the grader will provide a written summary of issues and deficiencies to be addressed in the revision.

4) The Candidate has one year in which to revise and resubmit the Research Project. The Candidate can revise the Research Project one time.

5) The review process for revised and resubmitted Research Project reports will follow the same procedure outlined above for the initial submission.

6) The grader has 30 days in which to complete each review and notify Appraisal Institute in writing of final results.

General Demonstration Report Grading Sheets
Find out how different Demonstration of Knowledge option components are weighted by viewing these grading sheets.
FAQS: Research Project Option

1. What is the research project option?
   There are currently eight options available to Candidates with respect to receiving credit for the Demonstration of Knowledge Requirement.

   The research project option was designed for Candidates from the academic world as well as Candidates from other parts of the world who live in countries where the economies make it impossible to do the Traditional Demonstration Appraisal Report or the Three Appraisal Report options. In addition, the research project option was developed to recognize the broader scope of analytical practices.

   The research project option allows a Candidate to receive credit for the Demonstration of Knowledge Requirement by developing a research project under one of two essential types of projects—a consultation research project and an original research project. The consultation research project may be a project developed and communicated in the style outlined in accordance with the current version of the Uniform Standards of Professional Appraisal Practice or in the applicable standards of a given country or region. The original research project is a project that expands the overall body of knowledge of the appraisal profession. In both cases, the proposed research project is to be of sufficient scope and complexity to demonstrate that the Candidate has a thorough understanding of the principles, theories, techniques, and applications of real estate economics.

2. What type of topic can I chose?
   The focus of the project should be one that addresses a practical real estate economics topic or problem.

3. Are there any pre-approved topics?
   There are no currently pre-approved topics; however, the research project must not focus on one- to four-unit properties.

   Sample Project Outline
   Sample Project Topic

4. What is the process?
   First, the Candidate must submit an application and topic proposal to Appraisal Institute. After the topic proposal is accepted, the research project can be submitted for grading.

5. Why must I submit a proposal first?
   The foundation of this requirement is firmly entrenched in the academic world. Appraisal Institute wants to be sure that your topic is meaningful and can adequately demonstrate a thorough
understanding of the principles, theories, techniques, and applications of real estate economics. The proposal will be initially reviewed by a grader who will either accept the proposal or offer feedback for possible changes. Once the proposal is accepted, the grader will give you final approval to complete and submit the research project.

6. What must my consultation research project proposal contain?
   1) A detailed description of the property or properties that are the subject of the consultation.
   2) The nature of the consultation assignment.
   3) The scope and intended use of the consultation.
   4) The methodology proposed to accomplish the consultation.

7. What must my body of knowledge research project proposal contain?
   1) An exploration of why the proposed topic/hypothesis is important, the possible implications of the findings, and the possible applications of the results.
   2) Complete consideration of the processes of discovery, application, and integration of the results of the research.
   3) Preliminary analysis and research into available resources; what has already been done in the field?
   4) Literature review.

8. How long should my proposal and research project be?
   There is not a specific requirement. The proposal and research project that follows must be described in sufficient detail for the grader to make an informed decision about its appropriateness. The proposal is a measurable component of the overall research project option. Your concern should be to present your proposal and research project in a way that communicates clearly and effectively. Clear communication allows the grader to have a pleasant experience. Poor presentation can interfere in the process of communication and lead to lower marks. Good presentation makes the most of the hard work that you put into your research.

9. Can I get assistance with my research project?
   No. The Candidate must have sole professional responsibility for the development of the research project. The research project may include work that is performed in the course of the Candidate’s business practice if the Candidate personally, and without assistance, defined the problem, developed the analysis, formulated the conclusions, and prepared the project.

10. Do I have to defend my research project?
    The term research project as used in this document and Appraisal Institute literature should not be confused with a doctoral dissertation. The research project prepared by the Candidate is a rigorous and thorough analysis presented in a written document. The Candidate will not be required to defend the research project orally.
11. Is there a recommended format for the proposal and research project?
   The form and presentation of the proposal and the research project is left to the Candidate. There are several publications and books available that could provide a meaningful outline. If developing a consultation research project, care should be taken to meet the requirements of the current edition of the *Uniform Standards of Professional Appraisal Practice* as well as the *Certification Standard of Appraisal Institute. International Valuation Standards* may also be applicable.

   **Sample Project Outline**

12. Can you give me some guidance as to what to include in my proposal?
   There is not one correct way to develop your proposal. Items to consider might be a statement of the problem and its setting, a review of related literature, the data, treatment of the data and its interpretation, the qualifications of the researcher, the outline of the proposed study, and a selected bibliography. In outlining the problem and its setting, it is important to give a clear statement of the problem and its potential sub-problems. It is also important to state a clear hypothesis, the limitations of the study, any definitions pertinent to the assignment, a list of assumptions, and the importance of the study. The data should be outlined with both the primary and secondary data summarized. The research methodology and the specific treatment of each problem would be helpful as well.

13. Why are proposals rejected or sent back for revisions?
   Generally, proposals have been sent back for revisions when the objectives are ill-defined, or the topic doesn’t appear to be one in which the Candidate could demonstrate a thorough understanding of the principles, theories, techniques, and applications of real estate economics.

14. My proposal was accepted by the grader, but I have decided to select a different topic. Can I do this?
   Yes, however, a new proposal must be submitted and approved before continuing with the research project.

15. Can I submit a research project that has already been published?
   No.
PART FOUR

Defense of Reports Option

Criteria & Application

This option for the General Demonstration of Knowledge requirement is an option which includes an in depth in person oral defense of a Candidate’s reports. It may not be the perfect option for all Candidates. The Candidate should be comfortable presenting an oral defense of reports which could be similar to defending a master’s thesis or doctoral dissertation.

The Candidate will be expected to attend a meeting comprised of Appraisal Institute members that are selected from the Demonstration of Knowledge Grading Panel and the Experience Panel. The panel members will read the reports provided by the Candidate and ask questions about those reports. The Candidate will provide an “oral defense” of all or some of the reports submitted. The Candidate can anticipate questions that are general and specific, and those which clarify areas of the reports where there is less data or analysis provided.

The reports considered for this option combined with the oral testimony must demonstrate the same level of knowledge, understanding, and application of appraisal principles and practices required in the traditional demonstration report option. Jointly, the reports and the oral presentation will be considered for the award of credit.

Guidelines

The most concise and detailed guidance for completion of this option is provided in Defense of Reports Option and under Part One: Traditional Demonstration Appraisal Report Option Outline.

The Official Guide to the General Demonstration of Knowledge Requirement: General should be the primary reference for choosing reports and preparing for the interview with the committee. See Part One: Traditional Demonstration Appraisal Report Option Outline.

The reports considered for this option are intended to be business reports, delivered to clients, from the Candidate’s daily work, however, a Candidate is allowed to enhance the reports and submit the enhanced reports for consideration for this option.

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The Candidate will select three to five reports that satisfy the following criteria:

A) The reports must be communicated in a narrative format with support for the analysis and conclusions. Areas lacking full support approaching the Demonstration of Knowledge requirement, will require oral defense, enhancement, and/or support by file memorandum;

B) All of the report selections must be dated no more than five (5) calendar years prior to the year of submission to the Appraisal Institute;

C) All of the reports must meet the Appraisal Institute Standards; and

D) Contain the types of analyses listed below:
   1) At least one of the reports must include all three approaches to value.
   2) At least one must include (choose from one of the following):
      i. A fundamental market analysis (minimum Level C); or
      ii. An analysis of obsolescence present in the subject property (the property must suffer measurably from either functional obsolescence, external obsolescence, or both. In addition, if this option is pursued, a Level B Inferred Market Analysis is required).
   3) At least one must include a direct capitalization analysis.
   4) Each report must contain a reconciliation as outlined in The Official Guide to the General Demonstration of Knowledge Requirement. (This requirement should suggest that each of the reports have more than one approach to value.)

E) The Candidate must have primary responsibility for assembling and analyzing the data, forming the conclusions and preparing the reports. The Candidate must have personally inspected and confirmed all comparable sales or rental properties. All appraisal data in the reports must be factual. (A Candidate is allowed to receive assistance in matters such as photography, drawings, word processing.)

F) The real estate which is the subject of the appraisal reports are not involved in, or subject to, any type of litigation in the courts.

G) Neither the real estate which is the subject of these reports nor any of the data relating to it has been the topic of or was secured through participation in any real estate course, clinic, seminar or other similar source.

It should go without saying that the reports submitted are representative of the Candidate's best work product. The assignments also should represent those which are commonplace for the Candidate, not properties that are so unique as to be one-time projects.
Capstone Program Option

The General Demonstration Report—Capstone Program is an additional option Candidates may choose to complete the demonstration of knowledge requirement for MAI Designated membership. Like the traditional demonstration appraisal report option, the same skills and knowledge base are required to produce a complete demonstration appraisal report. However, this program was designed to offer an option that accelerates the completion of the report. Instead of selecting and compiling data on a property, participants are provided with a subject property and data to analyze and then write the report in a limited time span of approximately two months. Participants must attend two webinars and a seven-day classroom session where facilitators will be on hand to answer questions and offer guidance. On Day Seven at noon, the full report must be submitted for grading.

The program is designed to be completed in approximately two months; therefore, participants must realize they will need to commit a considerable amount of that time on analysis and writing tasks PRIOR to the classroom setting. One pre-class writing assignment (fundamental market analysis) is required before the 2nd Webinar. It is important that participants understand they will need to spend a minimum of 140-200 hours to successfully complete this program. And during the seven-day classroom session, participants should expect to work on their reports after the seven-hour days spent in the classroom. Ten to 12 hours a day that week will not be unusual.

Because of the nature of this program, NO REFUNDS or TIME EXTENSIONS will be granted.

Prerequisites

- Advanced Market Analysis and Highest and Best Use
- General Demonstration Appraisal Report Writing Seminar (within the last 5 years)

Participant deliverables

- Submit pre-class assignment
- Finish all sections of the demonstration appraisal report by noon on 7th day and upload completed report to Appraisal Institute for grading
Objectives

- Test ability to analyze the necessary data properly, support conclusions, and write an appraisal report providing analysis and conclusions which will lead the reader to concur with the opinion of value.
- Demonstrate critical thinking and technical expertise.
- Demonstrate the ability to interpret real-world market knowledge.
- Present a consistent theme throughout the entire report.
- Support and defend your analysis.
- Communicate effectively and consistently.
- Demonstrate knowledge of valuation methods and analytical techniques.

Timeframe to complete program & report

<table>
<thead>
<tr>
<th>Days 1-21</th>
<th>Download materials, begin review of materials</th>
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<tbody>
<tr>
<td>Day 22</td>
<td>WEBINAR #1: Introduction to program &amp; Intro to Fundamental Market Analysis</td>
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<tr>
<td>Days 23-38</td>
<td>Complete Assignment: FMA</td>
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<tr>
<td>Day 39</td>
<td>Assignment due</td>
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<tr>
<td>Day 47</td>
<td>WEBINAR #2: Feedback on Fundamental Market Analysis</td>
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<tr>
<td>Days 48-66</td>
<td>Continue working on other parts of the report up to HBU</td>
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<tr>
<td>Days 67-73</td>
<td>CLASSROOM SESSION</td>
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<tr>
<td>Day 73</td>
<td>General demonstration report due</td>
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PART SIX

Peer Reviewed Publications Option

Overview

A Candidate, who is a PhD., may satisfy the Demonstration of Knowledge requirement by receiving credit for at least three (3) peer reviewed publications based on original research (in a field related to real property economics) approved by the ADQC or its designee. Multi-authored publications will be accepted.

A Candidate, who is not a PhD., may satisfy the Demonstration of Knowledge requirement by receiving credit for at least three (3) peer reviewed publications based on original research (in a field related to real property economics) approved by the ADQC or its designee. All publications must be authored solely by the applicant. Multi-authored publications will not be accepted.

The submissions must be quantitatively rigorous, and deal with valuation or economic issues relevant to real property appraising and/or real property analysis. The submissions must be directly applicable to valuation issues and/or real property economic issues. There must be a nexus between real property appraising and the article that is being submitted.

Submission Requirements

- The submission must have sufficient scope and complexity to demonstrate that the Candidate has a thorough understanding of the principles, theories, techniques and applications of real estate economics.

- The submission must include at least three (3) peer reviewed publications (in accredited journals and/or periodicals) and must reflect original research, in a field related to real property economics.

- The peer reviewed publications must be submitted to the Appraisal Institute for credit within five (5) years from date of publication, and may only be submitted by one author. Additional co-authors will not be permitted to submit the same publication for consideration.

- Must submit an electronic copy of the publications.

- Must include a statement of contribution for each publication submitted for consideration.
PART SEVEN

Master’s Thesis or Doctoral Dissertation Option

Overview

A Candidate may satisfy the Demonstration of Knowledge Requirement by receiving credit for a Master’s Thesis or Doctoral Dissertation (in a field related to real property economics) approved by the Admissions Committee, or its designee.

Submission Requirements

- The submission must have been received credit toward a graduate or doctoral diploma or degree.

- The submission must reflect original research.

- The submission must be quantitatively rigorous, and deal with valuation or economic issues relevant to real property appraising and/or real property analysis. The submissions must be directly applicable to valuation issues and/or real property economic issues. There must be a nexus between real property appraising.

- The Master's Thesis or Doctoral Dissertation must be submitted to Appraisal Institute for credit within ten (10) years from date of submission to the college or university.

- Must submit an electronic copy of the thesis or dissertation, and a signed and dated letter from the college or university that the Master’s Thesis or Doctoral Dissertation was approved.

Questions?

Please contact demo@appraisalinstitute.org or 312-335-4111.