Recognized Methods & Techniques of Real Estate Appraisal.

Where do you look?
AI’s Body of Knowledge!
Leslie P. Sellers, MAI, SRA, AI-GRS  
Chair of the Appraisal Institute Body of Knowledge Committee and former AI President

Stephen D. Roach, MAI, SRA, AI-GRS  
Chair of the Appraisal Institute Education Committee

Dennis A. Scardilli, Esq., MAI  
Appraiser Defense Attorney
Our presentation will:

1. Identify BOK elements;
2. Discuss how/why the AI BOK is the basis of RMATs of real estate appraisal in the US;
3. Review appraisal standards, including USPAP and AI’s SVP, then relate them to the BOK; and
4. Discuss how the BOK, RMATs, and appraisal standards can be used in everyday appraisal practice.
Goals of this presentation are to provide attendees with:

1. Awareness of the AI BOK, and how it can be used as the basis of appraisal RMATs;
2. Ability to relate the BOK to RMATs, and to USPAP (or other standards), everyday practice; and
3. Knowledge of how to use BOK/RMATs to avoid and defend allegations of USPAP non-conformities.
Let’s say that you get an assignment to do an appraisal and you want to go back to basics to make sure you’re following professional standards...

So, you open USPAP and start reading.

What’s the first “Standard Rule” you come across?
Surely the standards define what constitutes “recognized methods and techniques”, right?

Nope – the term is not defined in USPAP.
Further, the comment to this Standard Rule says:

**Comment:** This Standards Rule recognizes that the principle of change continues to affect the manner in which appraisers perform appraisal services. Changes and developments in the real estate field have a substantial impact on the appraisal profession. Important changes in the cost and manner of constructing and marketing commercial, industrial, and residential real estate as well as changes in the legal framework in which real property rights and interests are created, conveyed, and mortgaged have resulted in corresponding changes in appraisal theory and practice. Social change has also had an effect on appraisal theory and practice. To keep abreast of these changes and developments, the appraisal profession is constantly reviewing and revising appraisal methods and techniques and devising new methods and techniques to meet new circumstances. For this reason, it is not sufficient for appraisers to simply maintain the skills and the knowledge they possess when they become appraisers. Each appraiser must continuously improve his or her skills to remain proficient in real property appraisal.

*The word “change” is in here 7 times*
Situation report from the field:

- We are required to be aware of, understand, and correctly employ recognized methods and techniques ("RMATs")
- The term isn’t defined in USPAP (or SVP)
- RMATs are NOT static; they’re dynamic
Are the presenters critical of USPAP and SVP for not defining what constitutes RMATs?

NOPE – that’s not the purpose of a set of professional standards!

The presenters believe that standards should be principles-based.
Where you gonna’ look for RMATs?

We suggest the Appraisal Institute’s Body of knowledge ("BOK")
We suggest that this information is helpful for use not only during this Presentation, but when you leave here and for the rest of your professional career as an appraiser.
Understanding of USPAP

Dennis Scardilli, Esq., MAI
Do you thoroughly, completely, and unequivocally understand every aspect of USPAP?

If not, please raise your hand and leave it up.
Have you ever read, gazed at, or even cracked open any version of *The Appraisal of Real Estate*?

If so, put down your hand.
If your hand is still raised, please repeat after me.

“I (your name) promise to at least look at the current edition of *The Appraisal of Real Estate* the next time I have a question about RMATs.”
Why? Because *The Appraisal of Real Estate* is the cornerstone of the AI BOK.
Our point is . . .

The AI BOK is recognized by the real estate industry and by courts as an authoritative source of real estate appraisal RMATs.
What did we all learn as “baby appraisers”? We learned the theory and techniques developed by the Appraisal Institute and its predecessors since 1932.
AI’s BOK is the substance underlying USPAP’s referenced “recognized methods and techniques of real estate appraisal.”
USPAP 2018-19 mentions “recognized methods and techniques” **18 times**, typically reiterating SR 1-1(a):

“be aware of, understand, and correctly employ those recognized methods and techniques that are necessary to produce a credible appraisal”.

But, USPAP does not define what constitutes RMATs, nor does it tell us where to find them.
What is The **Appraisal Profession’s Body of Knowledge**?

- AI’s BOK is a **part of** the total profession BOK
  - The level of peer review, exposure, and vetting is the key
- Why is knowing what **is** the BOK Important?
- Why is knowing what **is not** the BOK important?
“The scope of work decision is appropriate when it allows the appraiser to arrive at credible assignment results and is consistent with the expectations of similar clients and the work that would be performed by the appraiser’s peers in a similar situation.” The Appraisal of Real Estate, 14th Edition, page 39

“In developing a real property appraisal, an appraiser must be aware of, understand, and correctly employ those recognized methods and techniques that are necessary to produce a credible appraisal” USPAP 2018-2019, Standard Rule 1-1
Credible is defined as “worthy of belief” (USPAP 2018-2019 line 111)

Credible assignment results require support, by relevant evidence and logic, to the degree necessary for the intended use” (USPAP 2018-2019, lines 112-113)
Examples – RMATs are followed:

- Highest and Best Use analysis consists of all four tests with evidence of economic supply and demand with analysis and resulting in 3-conclusions (Use, User, and Timing)

- Quotes from TARE (latest edition), USPAP (latest edition), Dictionary of RE Appraisal (latest edition), other currently offered courses, national developed seminars, or other BOK designated publications for justification of a method used

- Quotes from an Appraisal Institute Guide Note as justification of a method used
Why does it matter?

Examples – RMATs are not followed:

- Highest and Best Use analysis consists of definition and conclusion with no analysis.
- Highest and best use consist of only one conclusion (use) and leaves out the other two conclusions (likely user and timing).
- Highest and best use lacks economic demand evident in the market (no supply and demand analysis).
- Use of an article in TAJ (or other “author opinion”) as the only justification for a method used.
Numerous courts have recognized publications in the AI’s BOK as a “learned treatise” worthy of ”judicial notice”.

Legal Implications
Most jurisdictions accept the “learned treatise rule,” which is defined as “an exception to the hearsay rule [in Evidence] by which a published text may be established as authoritative either by expert testimony or by judicial notice”.

Judicial notice is defined as “A court’s acceptance, for purposes of convenience and without requiring a party’s proof of a well-known and indisputable fact; the court’s power to accept such a fact”. Black’s at 865

The AI BOK in its various components have been recognized by courts as an authoritative source of RMATs. Perhaps the most prolific example is the widespread acceptance of “The Appraisal of Real Estate”.

Legal Implications

151. By using these improper methods in appraising conservation easements, Defendant [REDACTED] generated grossly overvalued appraisals, which in turn resulted in taxpayers grossly overstating their tax deductions.

154. In light of [REDACTED] professional experience and education, he knew or should have known that the manner in which he valued the conservation easements was contrary to the internal revenue laws and regulations, violated the professional standards for real estate appraisers, and resulted in gross valuation overstatements for the easements he appraised.

Excerpts from *Complaint* in United States v. Zak, et al
What is the Appraisal Institute’s Body of Knowledge?

Leslie Sellers, MAI, SRA, AI-GRS
In February 2018, AI’s Board of Directors adopted a policy stating that AI’s BOK consists of the following:

- AI’s currently available textbooks, monographs and Guide Notes, excluding compilations of articles; and
- current national AI courses and seminars;

The document also states that AI’s BOK is an authoritative source of recognized methods and techniques for valuation practitioners.
What’s in the AI BOK?

All current nationally-developed AI courses and seminars. This includes:

- Qualifying Education (basic courses);
- Designation Education (advanced courses); and
- Continuing Education
What’s in the AI BOK?

- All currently-available:
  - Textbooks
  - Monographs, and
  - Guide Notes
What’s **Not** in the AI BOK?

- Everything else! **Not** in are:
  - The Appraisal Journal (author’s opinions)
  - Valuation Magazine articles (author’s opinions)
  - Monographs (unless specifically identified as part of the BOK)
  - Appraisal Institute Industrial book (compilation of articles)
  - Business Anthology (compilation of articles)
  - Chapter-developed seminars
  - Third-party seminars
Who and What is The Appraisal Institute Body of Knowledge Committee?
Regulation 7 - National Committees

Part A - Composition of Committee

The Body of Knowledge Committee shall consist of a Chair, the Chair of the Education Committee, the Chair of the Professional Standards and Guidance Committee and six (6) members at large, all of whom shall be Designated Members of the Appraisal Institute.
Part B: Powers and Duties (8)

The Body of Knowledge Committee shall:

1) review and analyze information relevant to establishing and maintaining the Appraisal Institute Body of Knowledge;

2) maintain liaison with other Appraisal Institute committees, bodies and staff to help facilitate timely clarity and consistency of content in Appraisal Institute education, publications and standards;

3) prepare and recommend from time to time a formal statement of the Body of Knowledge that is appropriate for the appraisal profession;
Part B: Powers and Duties (8)

4) monitor the appropriateness, application and effectiveness of the Body of Knowledge and recommend revisions as appropriate;

5) prepare and recommend updates to the Body of Knowledge;

6) identify, nurture and recommend ways to promote the Body of Knowledge and its position within the valuation field;

7) provide with each recommendation a statement indicating the effect of such recommendation upon the responsibilities of an Appraisal Institute committee, body or staff and the appropriate actions to be taken if the recommendation is approved by the Board of Directors; and

8) perform such other duties as may be assigned to it by the Board of Directors.
The AI BOK Committee

Body of Knowledge Committee

- Leslie P. Sellers, MAI, SRA AI-GRS, Chair
- Lance Coyle, MAI, SRA
- Stephen Fanning, MAI, AI-GRS
- Mark Ratterman, MAI, SRA
- Daniel Fries, SRA
- Stephen Roach, MAI, SRA, AI-GRS
- Larry Wright, MAI, SRA, AI-GRS
- Paula Konikoff, J D, MAI, AI-GRS
The AI BOK Committee

Body of Knowledge Committee (Liaisons)

- Stephanie Coleman, MAI, SRA, AI-G RS, AI-RRS (Staff Liaison)
- Sandra Keyes, Legal, staff liaison
- Mike McKinley, Senior Book Editor
- Others as needed
What is a Body of Knowledge?
The complete set of concepts, terms and activities that make up a professional domain, as defined by the relevant learned society or professional association.


The systematic collection of activities and outcomes in terms of their values, constructs, models, principles and instantiations, which arises from continuous discovery and validation work by members of the profession and enables self-reflective growth and reproduction of the profession.

A set of accepted and agreed upon standards and nomenclatures pertaining to a field or profession. (Romme 2016)

A set of knowledge within a profession or subject area which is generally agreed as both essential and generally known (Oliver 2012)
How is the AI BOK Developed?
How is AI’s BOK developed?

Starts with:

- Article in Valuation Magazine (Author opinion)
- Article in The Appraisal Journal (Author opinion)
- A National Appraisal Institute Meeting presentation (Author opinion)
- Other individual author assertion (Author opinion)
- A question brought to the BOK Committee
AI’s Body of Knowledge

How is AI’s BOK developed?

- Continues through peer review (transformed into peer reviewed opinion)
- After debate, discussion and peer review, it ends up in a seminar, course, or publication, becoming part of the BOK
Latest Example of Development

- BOK Committee identified a void in leasehold valuation from a leasehold perspective
  - BOK Committee reported to the BOD with recommendation for a seminar or course
  - Seminar Developed – “How Tenants Create and Destroy Value – Leasehold Valuation and its Impact of Value”
  - Seminar now under revisions - Project Team coordination with Education Committee
Appraisal Implications

Stephen Roach, MAI, SRA, AI-GRS
You need to do more than to say that you “understand” USPAP.

You need to understand the Appraisal Institute’s Body of Knowledge as a foundation for the RMATs in USPAP.
“Your appraisal is wrong because I’m basing my review on USPAP”? 

No matter your role in the appraisal process, get with it and build your substantive practice theory and procedures on the AI BOK.
Does anyone know who wrote the first volume of *The Appraisal of Real Estate*?

Fredrick Babcock in 1924
Academicians developed real property valuation theory in the late 1800s and early 1900s. In 1924, a young academician named Frederick M. Babcock wrote an important follow up to his first book on real estate appraisal, *The Appraisal of Real Estate* (1924).

As an effect of the Wall Street crash of 1929 and the ensuing Great Depression, the emphasis shifted from the academic to the practical.
In 1932, real estate brokers founded the American Institute of Real Estate Appraisers (the “AIREA”) and Savings and Loan financial institution appraisers founded the Society of Real Estate Appraisers (the “SREA”).

The academics went to work for the federal government in the newly formed Federal Housing Administration (the “FHA”). Employed at the then-newly formed agency, Babcock’s second book, *The Valuation of Real Estate*, written in 1932, synthesized various methods and techniques used to appraise real property.
In his book, Babcock first recognized that an understanding of the purpose of the appraisal must precede the use of a valuation method. Further, that “the purpose influences the value obtained in the appraisal.” This meant that there was no single definition of value, but rather it must be defined in the analysis and that a property may have several different types of value based on the purpose of the appraisal. He also distinguished between value, which must be defined, and market price, which is a fact.
Babcock divided the purposes of a valuation into two major categories:

- Valuations in making decisions of sale, purchase or investment; and
- Valuations for actions that involve others, i.e. “property tax assessment, damage determination, or public acquisition.”

There are 79 hits for the word “support” in USPAP 2018-2019.
However, “support” is not defined.
There’s a good discussion in Review Theory and Procedures...
Let’s Drill Down into RMATs

Adequate Support
The level of support that would be deemed “adequate” by the peers of the valuer responsible for the work depends on the intended use and purpose of the assignment. That is, other competent valuers would have to perform similar tasks in addressing problems similar to what the valuer is solving for the valuer’s work to be appropriate for the intended use.

In addition, a reviewer must be able to judge if a report documents a minimal level of support to lead the reader logically through the analytical steps necessary to explain the final conclusions. Certainly, the market evidence used to support the estimation of adjustments in the sales comparison approach should be included in the report rather than kept in the working file with only references to the data found in the report itself. However, the amount of explanation in an appraisal report of the adjustment amounts can be a relative matter. For example, consider an appraisal of real property used in litigation in which the opinion of market value is in dispute. The individual adjustment amounts are likely to be contested, and the appraisal report should provide a high degree of supporting information about the sales comparison analysis performed. In contrast, suppose an appraisal of a specialized income-producing property is used for lending purposes. The level of documentation provided for adjustment amounts in the sales comparison approach would not need to be as high if the income capitalization approach were given more weight in the final reconciliation.

In the latter case, the uniqueness of the subject property creates difficulties in selecting appropriate comparable properties and making reliable adjustments for differences. The level of support for the adjustment amounts that would be considered adequate is different in each situation.

Judging the adequacy of support in a report under review is one of a reviewer’s most difficult tasks. Looking at the report from the perspective of an intended user can help a reviewer judge whether the support provided in the report would help the person whom the report is specifically prepared for understand the work. If the conclusions and opinions presented in the report would not be clear to the intended user, a lack of supporting evidence may be the cause.
There are 251 hits for the word “appropriate” in USPAP (“appropriate data”, “appropriate analysis”, etc.).

A reviewer’s opinion of appropriateness is specific to the analyses presented in the work under review, and the reviewer develops an opinion of appropriateness within the context of the requirements applicable to the work. In the course of developing an opinion of appropriateness, a reviewer must address any necessary analysis that was not performed in the work under review. Review Theory and Procedures at P. 77
There are 259 instances of the word “credible” in USPAP (including the definition).


SVP defines “credible” as “Worthy of belief; supported by analysis of relevant information. Credibility is always measured in the context of intended use.” SVP, Definitions at 3.
“The Uniform Standards of Professional Appraisal Practice defines credible as ‘worthy of belief.’ That definition implies that an opinion of credibility would need support to the necessary degree for the intended use and purpose of the review assignment. The Appraisal Institute Standards of Valuation Practice makes that implication explicit in the definition of credible included in that document: ‘Worthy of belief; supported by analysis of relevant information.’”

Review Theory and Procedures, P.77
AI’s SVP defines “intended use” as “The valuer’s intent as to how the Report will be used.”

RMATs can change depending on the intended use or intended user.
USPAP has 769 instances of the phrase “intended use”, including a definition.

“Although appellant was listed as the "Borrower/Client" in one of the three reports, the reports do not state that the "Borrower" or "Borrower/Client" is an intended user, nor that the report was prepared for the Borrower or Borrower/Client's intended use.” Dabney v. Metro Appraisal Grp., Inc., 2018-Ohio-4601, ¶ 32 (Ct. App.)

“The intended use is the appraiser’s intent regarding how the report is to be used. Identifying the intended user and intended use of an assignment is essential for the determination of the scope of work. That is, the appraiser must identify who needs the services and for what purpose that person (or entity) will use the information the appraiser provides.”

The Appraisal of Real Estate, 14th Edition, page 50
Let’s Drill Down into RMATs

- There are 117 instances of the word “misleading” in USPAP, but no definition.
- In the real property section of USPAP, misleading is stated in:
  - Ethics Rule (3 times)
  - SR 2-1(a)
  - SR 3-3(b)(i)
  - Standard 4
  - SR 4-1(a)
“The magnitude of net adjustments is often a less reliable indicator of accuracy. The net adjustment is calculated by totaling the positive and negative adjustments. A net adjustment figure may be misleading because the appraiser cannot assume that any inaccuracies in the positive and negative adjustments will cancel each other out. For example, if a comparable property is 20% superior to the subject in some characteristics and 20% inferior in others, the net adjustment is zero but the gross adjustment is 40%. Another comparable sale may require several adjustments, all positive or all negative, resulting in a net adjustment of 30%. This property may well be a more accurate indicator of the subject’s value than the comparable sale with the 0% net adjustment, which had large positive and negative adjustments that cancel each other out mathematically.”

The Appraisal of Real Estate, 14th Edition, p. 394
“Although four key components can be identified within a discount rate—the safe rate plus considerations of illiquidity, management, and various risks—a discount rate that is constructed by adding allowances for these components can be misleading and inaccurate. The band-of-investment concept can be helpful in understanding these components, especially in differentiating marginal risk considerations, but these band-of-investment methods should not be represented as developing a market discount rate.”

The Appraisal of Real Estate, 14th Edition, p. 458
“The apparent simplicity of the comparative-unit method can be misleading. To develop dependable unit cost figures, appraisers must exercise judgment and carefully compare the subject building with similar or standard structures for which actual costs are known. Errors can result if appraisers select a unit cost that is not comparable to the building being appraised. When it is correctly applied, however, the method produces reasonably accurate estimates of cost.”

The Appraisal of Real Estate, 14th Edition, p. 587
“In 2011 and 2012, the government-sponsored entities (GSEs) active in the secondary mortgage market in the United States and the US Department of Housing and Urban Development developed the new Uniform Appraisal Dataset (UAD) to be used with four of the Fannie Mae residential forms (1004, 2055, 1073, and 1075). . . . However, the GSEs are only requiring this new language for single-unit dwellings and condominiums. It would be misleading to use the language in reporting the appraisal of a manufactured home or two- to four-unit properties.”

The Appraisal of Real Estate, 14th Edition, p. 652
There are 149 instances of the word “reasonable” in USPAP, but no definition of the word.

Black’s Law Dictionary defines it as “Fair, proper, or moderate under the circumstances.”

*Black’s Law Dictionary, 8th Ed., p. 1293*
TARE provides some “reasonable” examples of the word “reasonable”:

“Appraisers who rely on projections prepared by market research firms should have a clear understanding of the methodology used to make the projection. Otherwise the data may represent little more than a blind data set. To test the reasonableness of small area projections, comparisons should be made between the demographic data and the supply data collected in the specified market.” The Appraisal of Real Estate, 14th Edition, p. 121
“The appropriateness of the current zoning and the reasonable probability of a zoning change must be considered. Highest and best use recommendations may rely on the probability of a zoning change....”

The Appraisal of Real Estate, 14th Edition, p. 196
“In many professions in which opinions are important, the quality of work is often judged by the reasonableness of the opinions presented rather than by objective criteria because those criteria serve as more of a community standard than an absolute.”

Review Theory, p. 68
“reasonable care. As a test of liability for negligence, the degree of care that a prudent and competent person engaged in the same line of business or endeavor would exercise under similar circumstances.”

“reasonable person. A hypothetical person used as a legal standard, especially to determine whether someone acted with negligence; specifically, a person who exercises the degree of attention, knowledge, intelligence, and judgment that society requires of its members for the protection of their own and of others’ interests. The reasonable person acts sensibly, does things without serious delay, and takes proper but not excessive precautions.”

“In the context of review, reasonableness has four aspects:

1. Common sense (i.e., realistic, credible, and using practical judgment)
2. Rational (i.e., using balanced and sound thinking, not excessive or extreme)
3. Fair (i.e., impartial, objective, even-handed, and open-minded)
4. Acceptable (i.e., suitable)”

Review Theory, p. 69
“The purpose of the tests of reasonableness performed by a reviewer is to address the needs of the users of the appraisal report. That is, the tests of reasonableness are performed in the context of the intended use of the appraisal.”

“What other appraisers would do in the same situation is a standard test of reasonableness.”

Review Theory, p. 69
“A reviewer’s opinions of completeness, accuracy, adequacy, relevance, and reasonableness are developed within a defined context, which must be consistent with the scope of work of the review assignment. The context includes any laws, regulations, and other assignment conditions and the requirements of the intended user that are applicable to the work. The primary context for most tests of reasonableness is the intended use of the work under review.”

Review Theory, p. 72
How can I get the AI BOK?
AI’s currently available textbooks, monographs and Guide Notes, excluding compilations of articles?

*These are available on the AI Web site*
Current nationally-developed AI courses and seminars?

You have to sign up and take the course to get these materials.
Recognized Methods & Techniques of Real Estate Appraisal.

Where do you look?
AI’s Body of Knowledge!

APPRAISAL INSTITUTE NATIONAL MEETING 2019 - DENVER
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