

Real Property Tool Kit Articles

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Application of Critical Thinking Skills Reasoning and the Real Property Appraiser

Part 6

This Tool Kit article continues to reference “The Thinker’s Guide to Analytical Thinking” published by the Foundation for Critical Thinking. The authors of the Thinker’s Guide text list eight items in “A Checklist for Reasoning.” This article refers to item number 6 which states that “All reasoning is expressed through, and shaped by, CONCEPTS and IDEAS.” The text further indicates:

“Identify key concepts and explain them clearly.”

“Consider alternative concepts or alternative definitions of concepts.”

“Make sure you are using concepts with precision.”

Concepts, for appraisers, are generally comprise of appraisal principles, practices, and techniques (general body of knowledge) that help make sense of human behavior that create real estate markets. Producing a credible opinion of value encompasses the application of concepts and ideas. A credible opinion should contain (1) “key concepts” of value, (2) identification of definitions, and (3) credible analysis through “precision” of application of appraisal principles.

The development and reporting of an appraisal should include the “key concepts” such as the valuation principles used. For example, the appraiser can state that the principle of substitution was used to identify and analyze comparable properties. The quality of the comparables should speak to the degree of comparability to the subject property. Using concepts with “precision” suggests that the data and analysis is done that bests represents the actions of the market participants.

The needs of the client and intended users will influence the scope of work required to develop a credible opinion. Certain types of assignments require a higher degree of analysis. For example, developing an opinion of value for land/site of improved properties may not be required for loan purposes. However, partial acquisition assignments for governmental purposes typically require the appraiser to develop an opinion of the land/site and the contributory value of the improvements. In developing a unit value of the land, such as price per sq. ft, it may be advisable to graph the unit price to determine how parcel size affects value. Graphing can add precision to the opinion of value.

In a review of a multi-parcel appraisal of a road widening project I noticed some possible inconsistencies in the opinion of value for the various properties that had a combination of parcel sizes. The immediate neighborhood did not have a consistent parcel size. In addition, there were limited land sales for the variety of parcel sizes. This was problematic since the funding agency typically required the opinion of value to be within the unadjusted range of market sales. To address this problem a graph was prepared of the sales data relating unit price to size. There was an indicated correlation with different data groupings. The trend line could help solve the gaps where market data is scarce.

This analysis produced two positive results. It produces a review where the appraiser who prepared the report was given clear evidence to make corrections. The second benefit was that the funding agency was given ample evidence that the corrected opinion of value was credible. Not all opinions can fit into the standard tests for acceptability. Relating the opinion to appraisal principles adds credibility and can improve the client's understanding of the opinion of value.

Assignments where reasoning is crucial in the development of an opinion include interim uses, non-standard product, and various forms of obsolescence. Scope of work may need to be expanded to develop a credible opinion.

