

## Real Property Tool Kit Articles

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### Application of Critical Thinking Skills Reasoning and the Real Property Appraiser

#### Part 3

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 3 which states that “All reasoning is based on ASSUMPTIONS.” The text further indicates:

“Clearly identify your assumptions and determine whether they are justifiable.”

“Consider how your assumptions are shaping your point of view.”

All appraisal assignments include some level or amount of general assumptions. Appraisers must be able to recognize, define and communicate their assumptions as needed to develop and report a credible analysis. Assumptions should be well-organized, justifiable and consistently applied. In developing an opinion of value or recommendation the appraiser is to consider valuation principles and practices. Proper application of principles and practices will help frame the assumptions and define the scope of work requirements. A frame of reference and point of view are to be developed. Improper application of principles and practices may lead to faulty or misleading conclusions.

Uniform Standards of Professional Appraisal Practice (USPAP) requires appraisers to identify “Extraordinary Assumptions” in reporting an opinion of value. Such assumptions are specific to the assignment as compared to general assumptions. An extraordinary assumption is assumed to be true. However, because of a future condition or something that is unknown certain assumptions are required as an assignment condition. USPAP defines an extraordinary assumption as “an assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser’s opinions or conclusions.” While assumptions specific to an assignment must be identified general assumption are not necessarily required to be identified. However, inappropriate use of general assumptions can develop a misleading conclusion or recommendation.

In an eminent domain case a public agency acquired a strip of land along the frontage of a commercial use property. The site is a corner lot with surplus parking. The retail building is located in close proximity to the corner and is being used as a convenience

store. In the before condition, vehicles park in front of the commercial building and along the side of the building. The parking in front must back out into a busy street. The side parking fronts the primary road. In the after condition, parking in front of the building would be eliminated. Parking along the side of the building still meets the parking standards based on size of the building. Driveway access would be organized with a commercial driveway. Parking also exists on the side street behind the building. This parking is being rented to a business on the opposite side of the side street for employees.

The owner did not initially agree with the public agency's appraisal. The owner obtained the services of an appraiser to develop another opinion of value. The approach would follow the "State Rule" where the part taken is valued as part of the whole plus severance damages, if any. The owner's appraiser reasoned that parking spaces had a rental value. The appraiser used the owner's rent information for the spaces rented behind the building. The owner's appraiser assumed the rent received was reflective of the market. The appraiser then postulated that the spaces in front are worth more and doubled the rent to develop an opinion of loss of value. Is that assumption justifiable?

Appraisers must determine the extent to which the property is identified and inspected. Data collection and research must be consistent with proper valuation principles and practices. This revolves around assumptions by developing questions that must be answered. It is suggested that questions be ranked in importance.

In the above case the owner's appraiser appeared not to have prioritized the questions nor ask the correct questions. The assumptions were not credible. The subject property did have surplus parking which allowed the owner to rent spaces that were removed from the primary economic activity area. In addition, it was not known or mentioned whether the spaces were being rented at market rent. Nonetheless, it is doubtful the owner would rent the spaces in front of the building. That would not make economic sense. Those spaces were providing utility to the most expensive part of the overall value of the total economic activity, the building.

The owner's appraiser did not ask, and therefore did not answer, what is arguably the most important question. Does the loss of parking in front of the building reduce customer convenience to the degree business activity would be significantly reduced? If so, how much should the rent be reduced to compensate for the loss of income? Another question is what would a possible tenant pay in rents without the parking directly in front of the building? The scope of work should be developed to answer the questions. Economic reasoning should be applied.

Whether the assignment is a partial acquisition by a public agency, a diminution of value problem involving private parties, or a valuation of a total property, assumptions and the questions that evolve from the assumptions should consider the efficiency of the property. How does the property serve human behavior? In partial acquisitions or diminution problems the loss of utility of property should be considered. How does the after condition change human behavior?

