

IAAO PRESENTS



PREP&TRIAL

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COLUMBUS, OH



Analyzing the Appraisal Report

Views from Experts



Analyzing the Appraisal Report

Experts have information that can be important and not known by the assessor, attorney (or other experts) because an expert has taken a deep dive into the property and market facts. And, a review expert has also dived into the opposing expert report(s).

Experts should communicate to the attorney relevant “Body of Knowledge” (BoK) information, including “Recommended Method and Techniques” (RMAT). This includes the valuation perspective of applicable statutes, case law and state assessment manuals/guides, as these are Assignment Conditions in preparing an appraisal for court. The expert should further communicate IAAO’s BoK where it contrasts with other Bok’s (ex. Appraisal Institute).



Analyzing the Appraisal Report

The expert's goal should be to effectively communicate any relevant knowledge possessed by the expert that may not be possessed by the attorney, in order to increase the attorney's knowledge. The expert is an advocate for their opinions, and those opinions are based on a deep well of relevant knowledge.

Is an expert advising an attorney regarding the basis for their opinions an advocate for the client? What do you think?

Attorney's should ask their expert questions so that the attorney can be better informed and become a better advocate for their client.



Follow the Money:

- Paraphrased from Lines SR 1 Lines, 519, 566 and 579)
- A few of the **Must** Rules



An Appraiser Must:

- Identify the subject's relevant economic characteristics (lines 534, 536)
- Relevant is a very important word here.
 - See Competency rule (relevant market characteristic, line 395),
 - Scope of Work Rule (relevant evidence and logic, line 421) and
 - Problem Identification (relevant characteristics, line 433).



An Appraiser Must:

- Identify the subject's relevant economic characteristics (lines 534, 536)
- Analyze economic supply and demand (line 570)
- Develop Highest and Best, which builds on the aforementioned relevant economic factors (576-577)



Why must an Appraiser do this?:

- Why #1? Credible assignment results (580)
- Why #2: to select Comparable ... data as are available₄(582, 585, 590)



Income Approach “musts”:

- Rental ... and/or the potential earnings capacity of the property (590-591)
- Future rent and/or income potential (596-597)



Follow The Money



Relevant characteristics:

contrast “what is correct?”
vs. the opposing expert
vs. the assessor

***** Note that every characteristic including a numeric fact is actually an opinion *****



Check the Facts (i.e., relevant characteristics):

- Land area; gross, net, usable, excess, surplus, storm water, restricted, necessary, etc.
 - Appropriately sourced?
 - Correct?
 - Devil in the details?

***** While these tend to be minor, the opposition's counsel may be very good at making mountains out of molehills *****



Check the Facts (i.e., relevant characteristics):

- Improvement area(s); gross, net, usable, mezzanine, construction class, use, height/volume, etc.
 - Appropriately sourced?
 - Correct?
 - Devil in the details?

***** These facts tend to be much more critical
from a valuation perspective *****



Let's Play What's Your Opinion!

- Year built, effective age; weighted average age; what is weighted, etc.
 - Acquired in June, 2020, prior improvement razed in August, site work started in September, building Permit issued in December, 2020
 - Building opened for business on November 10, 2021
 - Assessment date is January 1st



Survey Says!

- On January 1, 2025, is the actual age 3, 4 or 5-years old?
- What is the effective age?

***** Applicable to all of the above: Don't just accept the opposing expert's foundational facts. What is correct is what is important *****



Check the Facts (i.e., relevant characteristics):

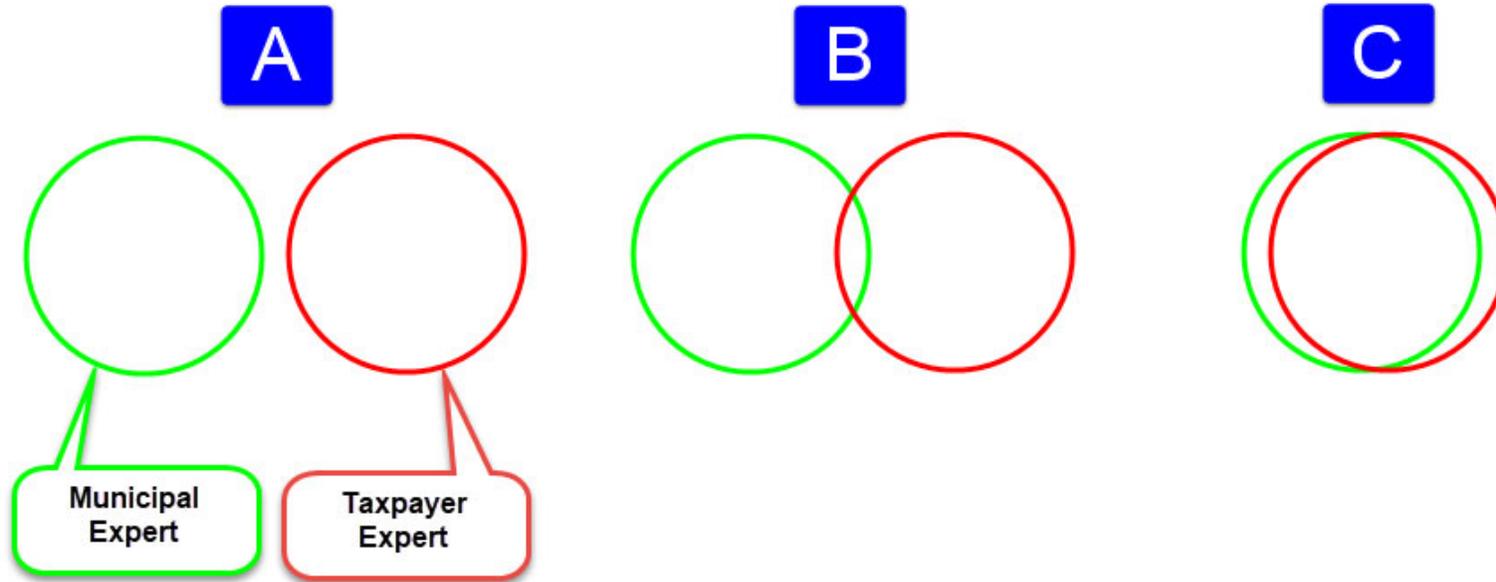
- Use
 - Historic use
 - Current actual use
 - Does the opposing expert opine to a fictional use?

***** HBU is the fulcrum. The HBU conclusion is important,
but it is the Comp Set that demonstrates
the real HBU opinion of the expert *****



Analyzing the Appraisal Report

Comp Sets



What do you normally see?

 % % %



Recent arm's length sale of the subject property

- What is recent?
 - USPAP requires 3-year history
 - UASFLA (“Yellowbook”) requires 10-year history
 - Telling the whole story is rarely bad; and it often sets the stage for the trier of fact



Recent arm's length sale of the subject property

- What is arm's-length?
 - Arm's-length for equalization?
 - Arm's-length for valuation?
 - Can an expert support an opinion that differs?



Recent arm's length sale of the subject property

- What is a sale?
 - Can a transfer of an LLC where one property is the only asset be an arm's-length sale?
 - What is your opinion?
 - Is there support for your opinion?



Recent arm's length sale of the subject property

- What sold?
 - Site with 100,000 SF was originally leased
 - 100,000 SF leasehold improvement was added years later
 - Fee simple (i.e., legal interest) owner then sold their economic interest (i.e., leased fee) for \$10 million to an investor purchaser.
- Is the price \$50 PSF, \$100 PSF or should you ignore the sale?
- Is there support for your opinion?



Think about all of the other relevant characteristics of the subject (ex. this non-exhaustive list focuses on retail)

- Is occupancy a relevant characteristic?
 - Some expert appraisals may imply no.
 - Has the same appraiser ever implied yes?
 - What does the state statutes, case law and manual/guide say?



Relevant location characteristics

- AADT (Average Annual Daily Traffic)
 - Is traffic flying by or actually stopping at the property?
 - Is the subject a one-off use or is there a cluster of competitive and/or complementary uses?
 - Do physical and zoning constraints affect what exists?



Relevant location characteristics

- **Demographics: Retail GAP analysis requires interpretation**
 - A subject property may not do well because of competition
 - New supply should be added in retail deserts
- Question: What are retailers actually doing?



Relevant location characteristics

- Trade Area
- Foot Traffic
- Retail Sales
- What is sold at the subject?
- Where are the competitors?



Users (consumers) are relevant:

- Employed consumers create demand for offices, factories, warehouses, government, churches, etc.
- These consumers create demand for housing
- These consumers create demand for retail
- These consumers create demand for lodging

**And this cycle continues, slowly or rapidly.
Until it stops.**



“Real Estate,” in and of itself, has no value. The rights, or interests in real estate are what have value.” (TARE 15th, page 4)

Four interdependent economic factors create value (utility, scarcity, desire, and effective purchasing power; TARE 15th, page 19)



“In the broadest sense of the term’s usage in economics, demand serves as a measure of the needs, material desires, and purchasing power of consumers.” (TARE 15th, page 276)

***** Hotel consumers control market demand.
Hotel operators (ex. chains, independent)
compete for market demand.*****



Discussion Examples

- Highest and Best Use
- Credible assignment results
- Comparable selection
- Rental and/or the potential earning capacity
- Future rent and/or income potential



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Thank you!

Bill Miller and Mike Daniel with
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