COLORADO CHAPTER APPRAISAL NEWS

Appraisal Institute®

Professionals Providing Real Estate Solutions

Volume 15, No. 3 — June, 2005

Editor: Martin W. Ward, MAI, SRA   www.colo-ai.org   Publisher: Carol Brooks

THURSDAY, JUNE 2, 2005
The Colorado Chapter of the Appraisal Institute

presents

WHAT YOU'VE ALWAYS WANTED TO KNOW ABOUT THE 2005 ASSESSMENT REAPPRAISAL

LOCATION: Four Points by Sheraton Denver Cherry Creek
600 S. Colorado Blvd., Denver, CO

SCHEDULE:
3:30 p.m. – 4 p.m. Registration
4 p.m. – 6 p.m. **What You've Always Wanted to Know about the 2005 Assessment Reappraisal**
6 p.m. – 7 p.m. Cocktails
7 p.m. – 9 p.m. Dinner and Seminar Speakers
Colorado Chapter Member Meeting
Election of Officers and Directors

FEE:

Seminar Only	
Members Appraisal Institute:	$15.00
Non-members:	$50.00
Seminar and Dinner	
Members Appraisal Institute:	$25.00
Non-Members:	$75.00
Dinner Only	
Members,	$15.00
Non-Members, Guests:	$25.00

CONTINUING EDUCATION: Appraisal Institute - 3 hours including dinner – 2 hours – seminar only
State of Colorado - 3 hours including dinner – 2 hours – seminar only

SPEAKERS:
Sam Forsyth, Chief Deputy Assessor, Boulder County – Moderator
Ron Benko, Appraisal Standards, Colorado Division of Property Taxation
Ed Bosier, Assessor, Arapahoe County
Cindy Domenico, Assessor, Boulder County
Denise Steiskal, Assessor, Summit County

TOPICS:
Comparison of assumptions for mass appraisal of properties vs. fee based, individual appraisals
Where the market is today and where it is going in housing, retail, office, commercial condos, warehouse, industrial, etc.
Questions and Answers on all issues affecting property assessment – Residential and Commercial

Please note: This program was developed by the Colorado Chapter, who is solely responsible for the contents.

REGISTRATION: See Page 12 for Registration Form or go to our web site: www.colo-ai.org

QUESTIONS: Call 303-691-0487
(outside Denver – 1-800-571-0086)
web site: www.colo-ai.org

BOARD OF DIRECTORS MEETING
Thursday, June 2, 2005, 1:30 p.m. – 3:30 pm. • Four Points by Sheraton Denver Cherry Creek – All Members Welcome

IN THIS ISSUE:

2005 OFFICERS AND DIRECTORS
Colorado Chapter of the Appraisal Institute

Advertising Policy

1. Advertisements must be camera-ready.
2. Advertisements must represent closely-related businesses or services to the real estate appraisal field.
3. All advertisements submitted for publication are subject to the Editor and Publisher's approval.
4. Appeals for rejections will be submitted to the Board of Directors and their decisions are final.
5. Fees are as follows:

		Member	Non-Member
Full Page	7" x 10"	$165	$175
Half Page	7" x 5" or 3¾" x 10"	$ 90	$100
Quarter Page	3½" x 4½"	$ 50	$ 60
1/8 Page	(Bus. Card size) 3½" x 2"	$ 30	$ 40

Colorado Chapter does not endorse any product or service advertised in this newsletter.

Send camera-ready copy and check to:

Appraisal Institute, 1540 S. Holly, #5, Denver, CO 80222

If you have questions, please call 303-691-0487
Outside Denver metro area 1-800-571-0086
www.colo-ai.org

Appraiser Lending Pressure

by Matthew George, SRA
Government Relations Chair

A new bill has been introduced by Rep. Bob Nely, R-Ohio and Rep Paul Kanjorski, D- Pa, that will result in appraisal licensing reform and the prohibition of appraiser pressure. The Bill is called H.R. 1295, The Responsible Lending Act. It says Congress should enact legislation designed to uphold the integrity in the real estate valuation process. The Appraisal Institute has contributed greatly to this cause by identifying and raising these issues with members of Congress. We have testified on the need for legislation to prohibit the improper coercion of appraisers by ensuring appraiser independence. We have a ways to go, but this is a step in the right direction.

New URAR Forms

by Matthew George, SRA
Government Relations Chair

Fannie Mae has released several new residential appraisal forms that will be required as of November 1, 2005 - and even sooner by some lenders. The URAR (Uniform Residential Appraisal Report) has had a makeover that members of AI helped to rewrite. Most appraisal software vendors already have the new forms available.

PRESIDENT'S CORNER

by Richard G. Stahl, MAI, SRA

We all know the Appraisal Institute (AI) is the recognized leader in real estate appraisal education, and that AI offers educational programs that address the needs of appraisers at every stage of their career development. But just how far has AI come in this endeavor? While I can't speak to early educational programs offered by the American Institute of Real Estate Appraisers (AIREA) and the Society of Real Estate Appraisers (SREA), I ask your indulgence as I reminisce a bit about the past 30 years. Many of you will recognize course names and locations that have long since changed.

The Boulder campus of the University of Colorado used to be one of the most popular locations for AIREA courses. The courses accommodated students from all over the country and without early registration one would be denied attendance. Many of the courses would coincide with "bankers" courses also held at the university and students from the various classes stayed in the dorms and ate their meals at the same residence hall. Many of the courses such as 1A, Basic Principles, Methods and Techniques and the capitalization course 1B lasted two weeks. By the second week *esprit-de-corps* developed among the students and faculty and many lifetime friendships were made. Many of you will remember the Colorado AIREA Chapter 22 "beer bust" during the courses. It was usually held at the top of Flagstaff Mountain but in later years moved to the campus. After designation, I participated in the "beer bust" in a non-elbow bending capacity and found that it was a logistical challenge getting all those cases and kegs to Boulder and up the mountain.

I vividly recall course 1A in Boulder taught by **James H. Pritchett, MAI,** for whom an AI award was posthumously named, and **John Hoppe, MAI**. At the end of the class, Mr. Pritchett sat down on the law school auditorium stage and told the class that after using all the mathematical models and other techniques to arrive at a value, an appraiser should sit down across the street from the subject property and ask him or herself, "now what the h*#* will it sell for". I have never forgotten that common sense wisdom. He also remarked that of the 100 or so in class, perhaps 5 would one day be awarded the MAI designation.

Some of you were fortunate to have instructors such as **E.T. Compere, Jr., MAI** from Abilene, Texas with his signature mustache and legendary humor. Other instructors of the period who come to mind were **James A. Graaskamp, SREA,** who was a tenured professor at the University of Wisconsin, **J.B. Featherston, MAI, Charles B. Akerson, MAI** and **Robert L. Foreman, MAI.** These men, and others, molded a generation of appraisers.

Besides 1A and 1B, there were courses with the names Single Family Residential Appraisal, Litigation Valuation, Investment Analysis, Case Studies in Real Estate Valuation, Report Writing and Valuation Analysis and Standards of Professional Practice among others. If you can imagine, in those days course material was typed for it was long before word processing was even in our vocabulary. Some of the other course locations included Ekerd College in St. Petersburg, Florida, Dartmouth College in Hanover, New Hampshire, University of Nebraska at Lincoln, the University of San Diego, University of Portland and the University of Georgia. It was not only a costly road to designation through course work but also travel.

Having now relived the past, look where we are today. We still have the required courses leading to designation, but also twenty-five on-line courses and seminars too numerous to mention but listed on AI's national website. Since the introduction of these on-line choices, they have been ever expanding. Certainly the convenience of such education has improved our efficiency as appraisers.

The Colorado Chapter has always been at the forefront of AIREA, SREA and now AI leadership. The Chapter is proud to have two past national presidents, **William T. Van Court, MAI** and **Peter D. Bowes, MAI.** Nearly twenty chapter members presently serve on national committees. **Peter D. Bowes, MAI, E. Nelson Bowes, MAI, Clifford L. Cryer, MAI, SRA, Louis J. Garone, MAI, SRA, James R. Meurer, MAI, SRA, William D. Park, MAI, SRA, Bonnie D. Roerig, MAI**, and **Robert O. Stevens, MAI, SRA**. are nationally accredited course instructors

Think of the changes in appraisal offices in just the last few years. Do you remember hand writing an appraisal report and having them typed…and then there was dictation…and now voice recognition software. How did we do it without desktops, laptops, electronic files, fax machines, internet, e-mail, PDF files, digital storage, digital cameras, digital recorders, scanners, wireless networking, optical drives and laser and phaser printers? How long before software prints our thoughts? Don't laugh, there is already molecular computer technology being developed.

Much of what has been still is. Excellent AI appraisal courses and seminars. There are just more of them and more conveniently delivered. Excellent AI instructors. More of them too, and eight excellent ones are members of our Chapter. But I suspect that there are even greater changes on the horizon that we cannot yet imagine that will change the way we conduct business just as it has happened in the last 30 years.

EDITORIAL RAMBLINGS

by Martin W. Ward, MAI, SRA

THROUGH A CRYSTAL BALL, DARKLY

As we all know, the premise of value, market value or other definitions, is essentially what the market perceives is the present value of future benefits of ownership of real estate. In income properties, this is reflected in anticipated future income, but in owner-occupied properties, including residential properties, the benefits are often not income but the use of the property, the desire to live in a certain neighborhood, or other intangible future benefits. As business men and women, the value of our business operations is based on our ability to foresee what the future holds for our profession. And in the current changing technological times, the ability to look into the crystal ball and see our future, always somewhat murky, is becoming even harder.

In the March 2005 issue of *The Colorado Mortgage Press* there were two articles that discussed issues relating to our future business practices. While not directly related, they do, in fact, have something in common if you think about them and make some casual links.

In the first, Charles W. Elliott, MAI, SRA of Greensboro, North Carolina, asks the question "Will Technology Replace Appraisers?" The question is, of course, regarding Automated Valuation Models (AVMs) – and would someone please hold Matt George, SRA down here – and the trend for the use of these statistical models as the basis for underwriting mortgage loans. Current estimates are that 15 to 20 percent of all first mortgages are made based on AVMs, and that 50 percent of all equity loans use AVMs to support value. While the trend to AVMs may be a tide we are trying to hold back with a dike we can't plug using only our fingers, we can help our clients in understanding where AVMs have bigger problems. Examples include areas in which there are limited sales transactions, or where properties are not particularly homogenous, such as rural areas or resort areas. In addition, in markets with upward or downward trends in values the AVM method will frequently over value or under value a property since the historical sales data will not best reflect the current state of the market. In other words, if the statistical model is not properly set up, the shortcomings of the AVM method will result in a lower value than an independent appraisal may conclude, resulting in a lower loan amount, or in markets where values are declining, it would result in too high a loan being made.

The second article is by Patrick J. Butler of Montgomery, Illinois and is titled "Limiting Appraisal Liability." No, this article is not a useful article for appraisers on how to limit liability for their appraisals, but for mortgage brokers on limiting *their* appraisal liability. This article deals with regulations regarding the attempt to influence appraised values. Apparently, Choice One Mortgage in Illinois was fined $5,000 in 2004 by the Illinois Department of Financial and Professional Regulation because they tried to influence appraised values of loans they were making. While we do not have similar regulations in Colorado that I am aware of, some of the violations stated in the fine sound familiar, including:

- Ordering appraisals "with the minimum value necessary to complete the loan…"
- Writing down the owner's estimate of value on the order form.
- Requesting "comp checks" from appraisers. This was found to be a problem since the effort by the appraiser to choose which comparables to provide the lender will require the appraiser to complete enough research that the result would be considered an oral appraisal report, and thus require an appraiser to complete a work file that provides support for their "report". This affects both appraisers, who are obliged to complete a work file, and the brokers, who if they are engaging appraisers they know are not completing and documenting their work files, result in the broker having made a decision based on an undocumented appraisal.

I found it interesting that in this article it is also noted that only challenging values the broker considers low can show a bias by the broker to influence appraisers upward. The article recommended having a process that creates an unbiased system for challenging appraisals, both for being too high or too low.

How do these two stories relate? If you think about it, the second article is all about the attempts by mortgage brokers – which could also be true of other users of appraisal services – to influence our process. Just imagine what could happen if unscrupulous users of appraisal services were allowed to influence the statistical models that result in AVMs.

While the trend may be toward more limited appraisal services, I believe the long-term prospects for appraisal services are still good for providers of quality and diversified appraisal services. As markets go through natural expansions and contractions, appraisals by appraisers will still be important and necessary. The attention span of Americans is famously short having already forgotten the problems created by the savings and loan debacle of the 1980s, and the importance of good quality appraisal services. Eventually, the market will change due to a contraction or high level of foreclosures, and the need for appraisal services will again be acknowledged. The key will be to survive during times that appraisal services are less appreciated by our clients. The best method to do this is to diversify your practice beyond mortgage work.

At least that is what my crystal ball sees, however murky it may be. I really need to get this thing cleaned and polished.

So, the rules are changing, will you be ready?

By Louis J. Garone, MAI, SRA

If you are on a designation path or moving up through the various levels of licensure as it pertains to Colorado, it may be worth your time to do a little research.

With the adopted changes in the appraiser qualifications criteria scheduled to be effective on January 1, 2008 you will see some rather profound changes in education, testing requirements, and work experience. The burden is on you—the appraiser, the associate, the state licensee—to know and understand what you can and cannot do.

With the proposed changes, we are seeing varying degrees of change within professional organizations relative to education and experience requirements for the variety of professional designations. We are also seeing varying degrees of change among course providers as they alter or amend courses to be in conformity with the core curriculum criteria established by the Appraiser Qualifications Board.

To top it off, the state board will be looking at Board Rules for appropriate changes to be in compliance with the new criteria. The board has already begun to implement some of the changes so there won't be an unmanageable change all at one time.

For the institute, a key date is January 1, 2005. The rules for SRA designation that you must follow are based on the date you became an associate. If before 1/1/2005 your requirements are significantly different than membership starting after 1/1/2005. The main thrust of the change is to bring education requirements back under the Institute's direction and control. With the advent of licensing, and ability to acquire education from many providers simultaneously, the continuity—and in some cases, the quality—of education suffered for some licensees. In some cases, the accommodation of allowing certification within the state to supplant the basic classes has allowed the education requirement for designation to be eroded. The changes between January of 2005 and January of 2008 appear to be intended to re-establish the quality of education at the highest of standards for designation bound associates.

If you became an associate before January 1, 2005:

1. State certified level of licensure accommodates the basic courses (110, 120, and 210). You still need either 500 or 540 with successful completion of the exam.
2. You need either a four year degree from an accredited college or university, or could seek a degree alternative which includes an additional 4,500 hours of work experience or successful completion of the GMAT exams.
3. You must satisfy the demonstration report requirement for a one to four family residential property or seek the modular demonstration of knowledge.
4. You must receive credit for two 2,000 hour submissions of work experience spread over a three and one half year period of time (the Advisory Review) of 2,000 hours could take the place of the initial review.
5. Associates who are on this path have until December 31, 2007 to complete the designation requirements or will then have to re-group under the new rules.

If you became an associate after January 1, 2005:

1. You must pass the state Certified Residential license examination. In addition to the basic Institute classes and/or associated exams you must take and pass course 500. Non Institute courses will not be counted toward education or exams. Total education must be equal to or greater than 200 hours and have been provided by the Appraisal Institute.
2. You need either an associates degree or higher from an accredited college or university, or could seek a degree alternative which includes college level classroom hours or CLEP examinations.
3. You must satisfy the demonstration report requirement for a one to four family residential property, seek modular demonstration of knowledge, or prepare General Demonstration Appraisal Report.
4. You must receive credit for 3,000 hours of work experience (an advisory review of 5 sample reports is optional), spread over a 24 month period of time.

While this change in direction may feel somewhat harsh, the fact is, the basic education is not sufficient to allow trainees to work on their own. While the added hours of education may not, in and of itself, solve the problem, at least an attempt is being made to raise the bar. Additionally, AQB and Board recommendation have moved in the direction of limiting the number of trainees an individual can mentor, including some direction or requirement for experience on the part of the mentor. Future work with the Board Rules will adopt the AQB requirements at a minimum.

One last thought is that each individual in the process of advancing through license levels should be looking at the timeline and education requirements published by the AQB. The step to licensed or certified is not just a matter of a few hours of additional education. It is now a major block of education to appropriately expand the appraiser's core base of knowledge.

On that note, the appraiser is responsible to ensure that the education program they are taking will satisfy the core knowledge criteria and is being provided by an institution approved by the state board. Generally speaking, when a course provider is selected, it is good practice to take all education from the same provider to avoid mix and match problems that could easily arise.

The Verdict is in!

By Louis J. Garone, MAI, SRA

Following a harrowing eight hours of strategizing, planning, and discussion, a few well planned “expert” witness meetings, the gavel crashed to the bench and the verdict was read. While both attorneys did their best to “rock the boat” beneath opposing counsel’s efforts, only one conclusion was reached.

The defendant was found to be innocent of all allegations made by the homeowner.

You really should have been there.

The cruise and course for 2005 turned out to be a great success and all who attended had a great time. Students participated in a mock trial (based on a real live case) and served as judge, expert witnesses or jurors in the four hour trial and deliberation phase of the course.

Dennis Roelker, SRA and Lou Garone, MAI, SRA had a marvelous time preparing the course, presenting four hours of “lawyer client, deposition and court room etiquette and strategy”, then served as opposing attorneys for the mock trial.

The balance of the cruise was as glorious as can be imagined. Smooth sailing start to finish, great dining, wonderful company and making new friends all combined to create a trip to remember. The stop at each port offered an opportunity to see and experience tourism at its finest. Shop till you drop, enjoy ocean sports, on shore excursions or just lay in the sand and tan. We enjoyed a golf outing on St. Thomas Island that proved to offer a golf challenge to remember for a lifetime. Did you know a bad slice goes as far off course at sea level as it does here? Or even a lob wedge can’t save a shot from the ocean? There are three consecutive holes called the Devils Triangle along the ocean that are so tough, if you make it through without a penalty stroke it’s worth a gift in the pro shop. We didn’t bring a gift home!

All in all, the trip was fantastic, what a way to get education hours, relax, and have a good time, and over eat, and make new friends and acquaintances. Our special thanks must go to Randy and Penny Pierzina for their effort in putting the trip together, and bailiff Carol Brooks for tending to the course particulars and helping with the trip details.

Rumor has it that another trip is planned for February 2006 and just may include a Standards update class as the course offering.

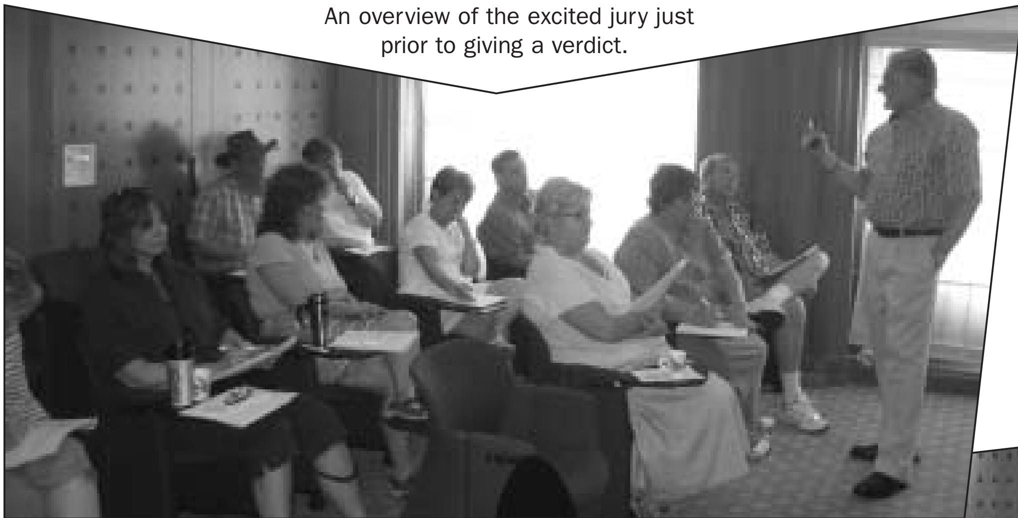
Again, wish you were there!

Louis G. Garone, MAI, SRA (right) and **Dennis L. Roelker, SRA** held a seminar on "The Appraiser's Role in Court Testimony" on the high seas while cruising the Caribbean.

Witness at the trial, **Ruth Agnese, MAI** from New York, won the cruise that the Chapter auctioned at National. Proceeds benefitted the Education Trust fund.

Lots of time for socializing.

None of this would have been possible if it weren't for the energetic motivation of Randy Pierzina, SRA who spearheaded the entire project!! A big THANK YOU, RANDY!!!



An overview of the excited jury just prior to giving a verdict.

The court room aboard the magnificent Millennium.

Not everything was serious - a bit of merriment in the court proceedings. (l to r) "Attorneys" **Lou Garone** and **Dennis Roelker** flank "Judge Judy" (**Karen L. Prior**, Archuleta County Assessor) and witness **Penny Pierzina**.

In Memoriam

ALDEN BROWN 1925-2005

by Peter D. Bowes, MAI

Alden Brown had a full, wonderful, happy life. Happy in spite of rheumatoid arthritis that assaulted him for over 30 years.

Alden always did things his way. For example, he worked for Garrett Bromfield and wanted to take a leave of absence so that he could take his family to Europe for a month. Garrett Bromfield did not have such a thing as a leave of absence, so Alden quit and turned a one-month's trip into a three-month trip. Something the whole family remembers.

Alden arranged his schedule so that he was home when his children went to school and home when they came home from school. He enjoyed it. His children benefitted from it. And his children's friends got to know and appreciate Alden.

Alden had a great sense of humor, and much, if not most, of the stories told at his memorial service related to that sense of humor. One of those stories was about Alden's comment to the nurse when he was in the hospital dying. His daughter Nea came into the room and he said to the nurse "This is my wife, hasn't she aged well?"

For his arthritis Alden had 20 surgeries. I don't know if it is exactly correct, but I tell everyone that he had every joint in his body replaced at least once.

I visited him in the hospital after one of his surgeries. I shook his hand, a good, firm handshake, which is what I do, and it hurt him. Next time in the hospital I reached out to shake his hand; he pulled his hand back and said "Are you going to hurt me?" I never forgot that.

Alden never slowed down and was always positive, happy and bright. He never felt sorry for himself, played bridge a lot, did day trading, and spent time with his friends and family. His family has taken on his good traits.

I tried to visit Alden once a year; it was a narrow window – back from Rancho Mirage before going to Norrie, back from Norrie before going to Rancho Mirage – about 1 month each. I only made it about every other year; my loss. When we did get together I found out what caught his eye that day, and it was always different. It could be about fun, it could be about business. He was very curious, very detailed/thorough, and very focused. Sometimes he told me more than I needed to know about the subject that day, or I thought so at the time. Although he did not know it, he was teaching me new things all the time.

How do you explain this kind of a relationship? This kind of a friendship? When there was no reason for it to happen? I never tried to figure it out, because it really does not matter.

I just enjoyed what God gave us.

Thank you God. Thank you Alden.

ROGER D. HELVICK

by Jim Edgell

Roger D. Helvick passed away on Saturday, May 7, 2005 in Herndon, Virginia while attending his daughter's wedding.

Roger was an active member of the SREA Denver Chapter # 9 during the 1980's. He served on the Board of Directors, as Treasurer, and was a member of the Admissions Committee.

Roger began his appraisal career with Capitol Federal Savings in the 1970's. In 1977 he started Premier Appraisal Service and ran a successful residential appraisal business for 28 years.

Roger lived in the Denver area for over 30 years but maintained strong roots with his home state of Iowa. A graduate of the University of Iowa; Roger was a member of the Tall Dog Biking Club of Ames and participated in a bicycle ride across Iowa for several years. He was a mentor for the Des Moines Register Dream Team bike club for five years. He also traveled extensively with the Drake University M.P.A. program the past six years.

Roger contributed greatly to the Denver area appraisal community and will be dearly missed.

GERALD M. ANDERSON

edited by Richard G. Stahl, MAI, SRA

Gerald M. Anderson died on February 4th at his home on the Kootenai River in Libby, Montana. Jerry is survived by his children, Brock Anderson of Bozeman, MT and Ashley Anderson of Boulder, CO. Jerry was born in Hillsdale, Michigan on September 12th, 1938 and was preceded in death by his parents Clifford and Viola Anderson. Jerry is remembered as an accomplished businessman who managed his own commercial real estate appraisal practice and was an active member and former president of the Colorado Chapter of the Appraisal Institute. Jerry served on Appraisal Institute National Committees and was director of the screening policy division after unification in the early 90's. Jerry lived in Boulder from 1972-2002 and continued to operate his business in Boulder until his death.

His many friends remember him as someone who pursued many endeavors and adventures in life. Whether it was model trains, strategic card games, commercial real estate appraisal, home remodeling, flying or academia, Jerry achieved expertise in everything he did.

He will be greatly missed by his friends and peers.

Appraisal Buzz Interview with Don Kelly, Vice President of Public Affairs, Appraisal Institute

Buzz: There's been a lot of talk about a bill being introduced in Congress that would impact all real estate appraisers. Can you tell us what you know?

Don: Yes, the Responsible Lending Act, H.R. 1295, was introduced on March 15 by Rep. Bob Ney, R-OH and Rep. Paul Kanjorski, D-PA. This bipartisan legislation would combat mortgage fraud and predatory lending by requiring the licensure of mortgage brokers, among other things, and making long-overdue and much needed reforms to the current appraiser regulatory structure through amendments to Title XI of the Financial Institutions Reform, Recovery and Enforcement Act. Some highlights of the bill as it relates to appraisers include:

1. Enhancing the independence of appraisers by prohibiting the parties in a real estate transaction from improperly influencing the development, reporting, result, or review of a real estate appraisal.
2. Requiring the Appraisal Subcommittee to describe its activities in its annual report to Congress and also requiring the Appraisal Subcommittee to hold meetings open to the general public to provide more disclosure and greater transparency.
3. Promoting professionalism and high ethical standards in the appraisal industry by permitting consideration to be given to appraisers who have obtained special designations or training from professional appraisal organizations as an indication of proficiency.
4. Providing the Appraisal Subcommittee with a more robust oversight system for state appraisal programs and authorizing the ASC to issue binding rules and regulations after public notice and opportunity for comment. The rulemaking authority is intended to provide the ASC with a full range of supervisory sanctioning powers over state appraisal regulators.
5. Facilitating the ability of qualified appraisers to conduct business across state lines by streamlining the process for obtaining temporary practice permits and providing for reciprocity in state appraiser licensing.

Buzz: Where does the Appraisal Institute stand on the bill?

Don: The Appraisal Institute is very pleased with H.R. 1295, in particular the appraisal provisions in Title IV, and we stand prepared to work with Congress, banking interests and consumer groups to provide testimony, information or recommendations to help secure passage of this legislation.

Buzz: Does this legislation stand a chance of passage?

Don: As with anything in Washington, there are no guarantees, but we are hopeful that H.R. 1295 will be considered and passed this year by the House of Representatives.

To help this effort, the Appraisal Institute issued two grassroots notices urging our membership to contact their members of Congress, asking them to become cosponsors of H.R. 1295. Through joint government relations agreements with the American Society of Appraisers and the American Society of Farm Managers and Rural Appraisers, similar alerts have been sent to their respective memberships, resulting in more than a thousand letters being sent and hundreds of phone calls being made to Congressional offices over the past three weeks.

The process of adding cosponsors to a bill is common on Capitol Hill to help shore up support as a bill moves through the committee chain. Since the "action alerts" were released, 14 cosponsors have been added to the bill, raising the total to 28. This includes the Chairman of the House Committee on Financial Services, Rep. Michael Oxley, R-OH, whose presence as a cosponsor gives the bill an added boost, as the bill has been referred to his committee. An up-to-date list of cosponsors is available on our website at: http://capwiz.com/appraisal/issues/bills/?bill=7272686&alertid=7272691

The House Financial Services Committee staff has indicated to our office that subcommittee hearings on H.R. 1295 are likely to be held later this month. The appraisal provisions of H.R. 1295 will be heard in the Subcommittee on Financial Institutions and Consumer Credit, chaired by Rep. Spencer Bachus, R-AL. If the bill is approved by the Subcommittee, it would then be considered by the full Financial Services Committee; if it is approved there, it will be in line to be considered by the full House. If passed there, it would go on to the full Senate. Since there is no companion legislation pending in the Senate, the process would essentially have to start from scratch in that chamber. While it is difficult to put a timetable on the consideration of legislation, H.R. 1295 appears to be gaining momentum, and we hope that momentum continues to build.

Buzz: Where can appraisers find out about the action alerts and contact their members of Congress?

Don: This is a good bill for consumers, and it is a good bill for appraisers. Because of this, we are encouraging the appraisal community to make phone calls to their members of Congress, urging them to consider cosponsoring the legislation, as our latest action alert requests. This alert is active on our Web site and available to the public. The Appraisal Institute utilizes an excellent grassroots coordination system that provides individuals access to more information on the bill and Congressional contact information by typing in a zip code. Once a zip code is typed in, you will be taken to a page that describes how to make a phone call to your member of Congress and advice on what to say. The system is user-friendly and it takes only a few minutes to use and make a phone call.

This alert is available on our Web site at: http://capwiz.com/appraisal/callalert/index.tt?alertid=7458436&type=CO

The system also allows for e-mails to be sent and that information, in addition to information on the bill, can be found on the Government Affairs section of our Web site: http://www.appraisalinstitute.org/govtaffairs/

If there are any questions, please feel free to contact me or the staff of the Appraisal Institute Washington office at dkelly@appraisalinstitute.org or 202-298-6449.

Don Kelly
Vice President of Public Affairs
Appraisal Institute

POSSESSORY INTERESTS

Jack Nisley, MAI

Recently, I completed an appraisal that involved a leasehold interest of a hangar that was on land owned by a governmental entity. In performing this appraisal, I obtained information on possessory interest valuation that appeared to be quite inequitable to leasehold interests. This article applies only to commercial uses, not ski areas or agricultural leases.

As we all are aware, taxpayers who hold leases on various government owned parcels now are required to pay property taxes on the possessory interests as required by 39-1-103 (17) (a) (II), CRS. This statute requires that possessory interests in real estate and personal property, other than land permitted for use as ski area recreational land, must be valued considering the Cost, Market, and Income Approaches to value. *When using the Cost Approach or Income Approach to value, the statutes direct that the present value of the reasonably estimated future annual rents or fees, less statutory exclusions, paid by the possessory interest holder to the government over the initial term of the lease be determined.* The course materials for Appraisal 516 of the CATA 2004 Course states that the "procedures employ a 'modified' Net Present Value (NPV) calculation technique" for the valuation of commercial and agricultural possessory interests. Modification was necessary to include an effective tax rate as a component of the NPV conversion rate.

For the purpose of the procedures, NPV is defined as: "*A value determined by discounting all future benefits, either in the form of a lump sum or a series of periodic installments such as rent or a combination of both, based on the assumption that benefits received in the future are worth less than the same benefits received today.*"

This information goes on to state that the following data is needed to do the NPV calculation.

- Actual Rental Rate in the Agreement (if actual rent is indicative of market rents)
- Current Market Rental Rates (if actual rent is not indicative of market rents)
- Duration of the Agreement (for agreements that have a duration of one year or less it is assumed to be for one year)
- Contractual Rent Adjustments and Their Expected Rates of Change
- Costs and Exclusions Documented in the Agreement
- Discount Rate as of the Assessment Date
- Effective Tax Rate as of the Assessment Date
- Appropriate Compound Interest Table

For all appraisers who have had to calculate present values on leased fee estates, it can be noted that the one item missing from the above "necessary data" is a future value, or reversionary interest. In fact, in the valuation of possessory interests, this is not an item of concern. After some other explanations in the course materials, it is stated that, for the development of the discount rate for possessory interests, two items are necessary. The first is a standard discount rate, with the sources stated being local lending institutions or other sources such as the Real Estate Investments Survey for the Rocky Mountain Region published by Smith/Burbach. These sources are used to support the rate developed locally. Next, the effective tax rate is developed using the mill levy as a decimal multiplied by the assessment rate as a decimal. This equals the effective tax rate, which is then added to the discount rate to establish the Net Present Value Conversion Rate. The course material states that the assessor may round up the Net Present Value Conversion Rate to the next highest half percent in order to use published tables for the present worth of one or the present worth of one per period to determine the appropriate conversion factor. This present worth of one factor is then applied to each year remaining in the initial term of the lease. The calculations can be done on a financial calculator, as a formula used in a computer spreadsheet program, or by present worth tables. If the agreement indicates that the payment will be identical for each year, use of a present worth of one per period factor based on the conversion rate and remaining years may be used in place of the present worth of one—dollar factor.

After this occurs, the present value of the possessory interest is adjusted to actual value by the use of the "level of value adjustment factor". This adjustment factor is estimated using the same procedures and principles as provided for in Section 39-1-104 (12.3) (a) (I), CRS. This procedure basically takes into consideration the fact that the first year of the reappraisal cycle (an odd numbered year) is the base year from which the adjustment for the second year is taken. For real property, the factor is based on median changes to the Western District averages for real property construction costs between the June 30th appraisal date and the January 1st assessment date as report in Section 98, Page 7 of the Marshall and Swift Valuation Manual published by the Marshall Valuation Service. The course materials state that the present value of the payments is what is calculated. This does not take into consideration any reversionary interests.

After the above data is used in a discounted cash flow analysis, the Net Present Value indication is then multiplied by the assessed value ratio (29%) for an assessed value, with the assessed value multiplied by the mill levy for the possessory interest tax amount.

The point of all of this is that if, as in many airports, hangar leases or ground leases for improvements may go on a 20-year lease term at the same time as another lease of a similar property goes under a 10-year lease term, tax consequences can be extremely different. As an example, we can assume three leases occur on identical properties at levels of 5-years, 10-years, and 20-years, on an annual basis, with the income stream on each of the properties at $14,400.00. If we use a Net Present Value Conversion Rate including the effective tax rate at 12%, the Net Present Value of the income stream would be $51,909.00 for 5-years, $81,363.00 for the 10-year lease, and $107,560.00 for the 20-year lease. Using 29% assessment ratio, and a mill levy of 85.00, the tax levels would be $1,279.56, $2,005.60, and $2,651.35, respectively, each for the same size tract leased at the same amount per year. Regardless of the tax levels applied, it can be seen that with the tax burden based on the Net Present Values shown above, the tax amount for the possessory interest on an annual basis would be quite high for properties with longer term leases, and if lease negotiations on behalf of some entities are more commonly short term, in the 5-year to10-year range, their annual tax burdens will be less for the possessory interest than the longer term leases. Some hold that the long term lessee has a more valuable interest, since it is a longer term. However, the lessees pay taxes on an annual basis, and appear to pay over and over for the same rights until the end of the lease term. Each tenant, long or short term, have the same right of use for the tax year. This becomes a multiple tax on the same right each year. There is no consistency in the tax burden imposed on the taxpayers when it is based on their lease term.

Obviously, from an appraisal standpoint, the offsetting factor that is common in lease terms is the reversionary amount, however, without that reversion in place, the Net Present Value of the income stream alone presents a very misleading and inequitable value for tax purposes. If the value was calculated on some basis for each year based on the one year lease rate, or if a reversionary interest were also considered, this valuation might be more equitable. However, taxation based on being equitable is no longer an argument in the state of Colorado. Also bear in mind that county assessors are being forced to use this formula, even though many understand the problems associated with the calculations. They have no say in this issue. Some counties enforce this assessment issue differently than others, in my understanding.

From an appraisal standpoint, this then presents an issue as to whether this particular tax issue can and will create an impact on overall value. In many cases, the owners are not aware of this situation until it is brought up to them. This may be a potential issue for government relations leaders to discuss with our Senators and Representatives, however, it is definitely an issue we need to be aware of.

Congratulations New MAI

by Julianne M. Anderson, SRA

James M. Messina

The interview was from the airport in Boston, as Jim was trying to catch a flight back to Denver. Yes, Jim does a lot of traveling to large metropolitan areas while working as a commercial appraiser for National Valuation Consultants, Inc. After 10 years in the business, Jim has successfully completed all the requirements for the MAI designation. Congratulations, Jim.

He was originally from New Jersey and set his sights on Colorado for his college education. He fell in love with Colorado and only travels back East for family and business trips. Getting his undergraduate degree in psychology from the University of Denver, Jim went on to the University of Colorado for his masters in urban & regional planning. Right out of college, Jim went to work with National Valuation Consultants and completed most of his experience credits for the MAI designation, before starting his demo and doing the class work and exam. As he looks back, he would probably recommend completing the course work before completing the demo, but sometimes life gets in the way of such plans.

Jim would like to thank many people for helping him obtain his designation, but is especially indebted to his boss, Larry Stark, MAI. He would also like to thank Matt Ansay, MAI and Carter Morrison, MAI for all their help in guiding him through his education and designation work. Jim indicates his career as an appraiser was one he "fell into" but loves it. He specializes in office buildings and enjoys working with big high rise buildings in many different large metropolitan areas.

Although traveling in our nation's airports is a hassle, especially trying to find affordable flights, Jim loves his work and the chance to see many large metropolitan areas. At least most of his time is spent doing research and writing reports. He is happy to receive his MAI designation. We wish you continued success in your chosen specialty, Jim, and we hope the traveling part gets a bit easier.

Welcome!

GENERAL ASSOCIATES

Deborah Behringer
850 Union St., Craig, CO 81625
Phone: 970.824.8735
e-mail: debjbehringer@hotmail.com

Casey C Gill
Gill Group, 110 Cook St
Denver, CO 80206
Phone: 573.624.6614
Fax: 877.624.2942
e-mail: cash.gill@gillgroup.com

Karen Leavey
Foster Valuation Co., LLC
1750 25th Ave Ste 204
Greeley, CO 80634
Phone: 970.325.1117
Fax: 970.353.2753
e-mail: karen@fosterval.com

Jeb Marsh
Ebert Appraisal Service
PO Box 388
Breckenridge, CO 80424
Phone: 970.453.2199
Fax: 970.453.0841
e-mail: jeb@ebertappraisal.com

Michael Nytes
1208 Westword Dr
Fort Collins, CO 80521
Phone: 970.988.6587
e-mail: mike@appraisalspecialties.com

Gregg S Ten Eyck
Leonard Rice Engineers, Inc
2000 Clay St Ste 300
Denver, CO 80211
Phone: 303 .455. 9589
Fax: 303. 455.0115
e-mail: teneyck@ircwe.com

RESIDENTIAL ASSOCIATES

Jeremy Beldon
Beldon Appraisals
8834 Pochard St
Littleton, CO 80126
Phone: 303.386.3027
Fax: 720.293.9934
e-mail: jay@beldonappraisals.com

Chris Brownlee
Brownlee Appraisal Services
115 N 5th St Ste 401
Grand Junction, CO 81501
Phone: 970.243.6608
Fax: 970.970.234.6811
e-mail: basi@ascol.net

Carol Kurtz
Town & Country Appraisal
303 S Main
Rocky Ford, CO 81067
Phone: 719.254.3086
Fax: 719.254.7032
e-mail: tandc@centurytc.net

Gerhard Morell
Morell & Assoc., LLC
3833 W 10th St Ste 200A
Greeley, CO 80634
Phone: 970.336.3133
Fax: 970.336.3169
e-mail: gmorell@aol.com

Celeste Sweatt
Front Range RE Consultants
1215 N Cleveland Ave
Loveland, CO 80537
Phone: 970.669.9162
Fax: 970.219.8838
e-mail: celeste@frreci.com

CHAPTER LIBRARY

by Bill James, MAI

Remember the Chapter Library is a great FREE resource for appraisal work! If you haven't used it, you will find that it includes a number of useful appraisal data sources that would otherwise cost you a lot. The library includes the most recent editions of:

- Dollars and Cents of Shopping Centers – Urban Land Institute
- Denver Area Apartment Rent and Vacancy Survey
- **NEW** Genesis Denver Metro Housing Overview - **NEW**
- IREM Income and Expense Analysis – Apartments
- IREM Income and Expense Analysis Federally Assisted Apartments
- BOMA Experience Exchange Report – Office
- NAIOP Industrial Income and Expense Report
- Frederick Ross Company Market Reports – Retail, Office and Industrial – Denver/Boulder
- Home Builders Association Report – Building permits
- Real Estate Research Corp – Real Estate Report
- Dollars and Cents of Multifamily Housing – Denver and Colorado Springs
- RealtyRates.com – Investor, Developer and Market Surveys

Come to the Chapter office to look these over at your first opportunity. You will find them very useful for appraisal work. The Chapter can even offer use of the Chapter copier at no charge as well. Of course, if you would like any other resources added to the library, please contact the office.

We have found one resource (actually three) that residential appraisers will find useful. The following websites include access to databases of contacts for Home Owners Associations so you can find out monthly dues, reserves, etc. They were compiled by two title companies and a brokerage.

http://www.realestatecolorado.net/denver-hoas/index.html

http://www.firstamheritage.com/Hoas/heritage_hoasearch.asp

http://www.stgco.com/hoa/hoaview/hoasearch.asp

By the way, all Members of the Appraisal Institute can call 312.335.4469 for a complimentary copy of the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute, which includes a complete copy of the current version of USPAP.

They Went That-A-Way

E-MAIL CHANGE

John Peter Baker, MAI
Baker292@comcast.net

Blaine B. Chase, MAI
bchase@chase-co.com

Richard B. Chase, MAI
rchase@chase-co.com

Michael J. Martin, MAI
Michael.j.martin@healthcare realtyadvisors.com

Jerry Prewitt, SRA
jpappraisals@qwest.net

Robert B. Spaete, SRA
bsappraisals@qwest.net

Jim Tiedemann, SRA
jteeds@adelphia.net

BUSINESS ADDRESS CHANGE

Dennis M. Danek, SRA, CRP
Accredited Appraisers, Inc
9730 W 20th Ave.
Lakewood, CO 80215
Phone: 303.727.8461 –
Fax: 303.727.8471

Louis J. Garone, MAI, SRA
Aurora Loan Services
10350 Park Meadows Dr., 4th Flr.
Littleton, CO 80124
Phone: 720.945.5423 –
Fax: 720.945.5927
e-mail: lgarone@alservices.com

Barbara Kaczmarek, MAI
Preston Real Estate Advisors
2525-15th St., Ste 1C
Denver, CO 80211
Phone: 303.777.1680 –
Fax: 303.777.1689
e-mail: bkaczmarek@onebox.com

Harold S. McCloud, MAI
McCloud & Associates
18690 E. Plaza Dr. #109
Parker, CO 80134
Phone: 720.747.4710 –
Fax: 303.996.3088
e-mail: hdmccloud@comcast.net

TRANSFERRING INTO CHAPTER

Deane Lawrence Davenport, MAI, SRA
RMV Specialists
1526 Cole Blvd., Bldg. 3, Ste 150
Lakewood, CO 80401
Phone: 303.914.9565 x 218 –
Fax: 303.914.9517

TRANSFERING OUT OF CHAPTER

James R. Burbach, MAI
Steven E. Eaglin

RESIGNED MAI ASSOCIATE

Phillip R. Barru

RESIGNED SRA ASSOCIATES

John H. Crowley
Stuart W. Cruden
Curtis Keeler
Michael Kelley
Aric R. Wallen
James P. Westman

RESIGNED SRA

Carol Hayden

ENROLLMENT Form — *No Phone Reservations! Please*

What You've Always Wanted to Know About the 2005 Assessment Reappraisal

Mail this and a check no later than May 31, 2005 to:

Appraisal Institute, 1540 South Holly Street, #5, Denver, CO 80222
OR FAX (303.757.0158) this with your VISA or MasterCard number and expiration date

Name: ______________________ Designation: ______________

Company ______________________

Social Security Number: ______________________

Work Phone: (________) ______________ E-Mail Address: ______________________

Address: ______________________ City, State, Zip: ______________________

VISA ☐ MasterCard ☐ **Note: The Chapter does not accept American Express**

Credit Card Number: ______________________

Name on Card: ______________________ Expiration Date: ______________
Please type or print

Signature: ______________________

Questions: 303.691.0487, Outside Denver Area: 1.800.571.0086, e-mail: carol@colo-ai.org

Schedule:
Registration: .....3:30pm – 4:00pm
Seminar: ....4:00pm – 6:00pm
Cocktails: ....6:00pm – 7:00pm
Dinner: ....7:00pm – 9:00pm

Continuing Education:
Appraisal Institute and State of Colorado
Including Dinner: ....3 Hours
Seminar Only: ....2 Hours
No Continuing Education for dinner speaker only

Fee: Seminar Only
Members: **$15.00** __________
Non-Members: **$50.00** __________
Seminar and Dinner:
Members: **$25.00** __________
Non-Members: **$75.00** __________
Dinner Only
members, **$15.00** __________
non-members, and guests **$25.00** __________
Total $ __________

Appraisal Institute®
Professionals Providing Real Estate Solutions