

Sacramento Sierra Chapter



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APPRAISAL NEWS

& Review

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President's Message

Happy Holidays! Thank you everyone who attended the 2004 Sacramento Sierra Chapter of the Appraisal Institute's Officer Installation Dinner. The installation presentation was held at Del Paso Country Club in November and the 2005 Officers were sworn in by 1988 Past President Charles W. Ryan, MAI. Special thanks go to Emily Bernardis, Executive Director for making the arrangements. I hope all those attending enjoyed themselves and took home something memorable.

The state of our Chapter remains financially sound with stable membership. Currently there are 260 members total, of which 171 are designated. For the last five years, strong leadership, experienced executive staff, and numerous effective membership committees have worked harmoniously together resulting in a more healthy, member-oriented chapter. Increased educational offerings, seminars, and Chapter social events during 2003 and 2004 witnessed the return of – how can I say it politely – non-gray haired appraisers; or should I say the next up and coming generation of appraisers is now “in the house.” We are excited as several associate members will finish their travel to the “designation” during 2005.

The growing presence of new appraisers at our events mirrors statistics told at the National meeting in Chicago during November 2004. Outgoing President Gary P. Taylor, MAI reported “Appraisal Institute's membership increased from 12,000 five years ago to 18,000 today,” adding, “We are the only appraisal organization in the country not in decline.” Furthermore, national reserves have grown from \$2.5 million to \$7.5 million. Sacramento Sierra Chapter of

the Appraisal Institute will likely end 2004 with assets 12 percent higher than 2003.

I have repeatedly been encouraged over the last five years from the motivation and selfless participation from numerous committee members, board members and executive directors I have served with. I strongly encourage all members regardless of affiliation to participate in your Chapter's activities. Doing so will build good business relationships and friendships furthering your career and encourage us in charge of planning to continue strong efforts at providing the best member benefits available to each of us.

The task ahead of us is to repeat last year's success lead by immediate Past President Cydney Bender, MAI. Thanks to efforts by Cydney, the Board of Directors, and Roster Chair Lance Jordan we will soon introduce a new online Chapter Roster. In addition, the Financial Committee lead, by Chapter Treasurer Richard Van Steenkiste, MAI has created a new badly-needed modern Chart of Accounts. Thank you to all involved.

The Executive Officers of the Sacramento Sierra Chapter for 2005 are Richard Van Steenkiste, MAI, Vice President, and Marshall Meager, MAI, Secretary/Treasurer. Serving on the Board of Directors are Colin Connor, Charles La Flamme, MAI, Lance Jordan, John T. Nicolaou, Steve D. Dunn, MAI, SRA, Donna Whitaker, MAI, and Raymond Smith, MAI. We look forward to serving you this coming year.

Richard A. Murphy, MAI

2005 President

The Sacramento Sierra Chapter of The Appraisal Institute

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Fall & Spring Education Offerings

The Sacramento Sierra Chapter has been working hard to bring you timely and interesting classes for the upcoming year. Whether you are preparing to obtain your appraisal license or designation, or need continuing education hours to recertify your license or designation, the 2005 education schedule has something of interest for you.

This winter, the chapter is presenting the following classes: Real Estate Finance Value and Investment Performance (January 21st), Course 400 National USPAP 7 hour Update (February 4th), Basic Appraisal Principles (February 7-10), Basic Appraisal Procedures (March 7-10).

In the spring, the chapter is presenting Course 410, the 15-hour National USPAP Course (April 23-24); Residential Highest & Best Use & Market Analysis (May 6-7); Course 520 Highest & Best Use & Market Analysis (May 12-14 & 19-21); Course

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**Sign-Up for Chapter Events
Online at the website:
www.sac-ai.org**

710 Condemnation Appraising: Basic Principles & Applications (June 8-9); and Course 720 Condemnation Appraising: Advanced Topics & Application (June 10-11).

The Appraisal Institute, acknowledged as the worldwide leader in residential and commercial real estate appraisal education, offers the highest quality in education and instruction. For brochures with details of the location, costs and instructors, as well as on-line registration, please refer to the Sacramento Sierra Chapter website (<http://www.sac-ai.org>).

Developers and Environmental Groups Adopt Novel Approach for Settling Land Disputes

By Greg Gatto

Note: The following article is reprinted in its entirety by permission from the Currents newsletter, a publication of Stoel Rives, LLP, Attorneys at Law. Special thanks to Mary Hays, SRA for recommending this article to the newsletter.

A new strategy is emerging in the ongoing battle between developers and conservationists. The latest device in settling legal disputes involving Greenfield developments seems to be a win-win-win for the developers, the public and environmental groups.

Traditionally, environmental groups challenging developments have proposed the immediate set-aside of open space land as a means of mitigating impacts from development. This practice has driven up the prices of open-space land and made valuable habitat a scarce commodity, as developers compete against each other to acquire land suitable for these purposes. Additionally, during these lawsuits, developers are often leveraged to the hilt with real estate and/or construction loans, limiting the availability of capital to finance open-space purchases. Thus, the initial amount of up front money paid by developers is usually insufficient to purchase large tracts of contiguous open-space, or quality habitat.

However, developers and environmental groups have recently come up with a novel solution to the inherent shortfalls in traditional open-space acquisition. This new type of resolution is exemplified by a recent settlement reached between the Sierra Club, Sierra Foothills Audubon

Society, and the developers of a 8,430 unit mixed-use development in West Roseville, who were represented by Stoel Rives.

Under this settlement a conveyance fee of 0.5% on the gross sales price is assessed for every resale of all single-family residential units in the development. This fee remains in effect for 20 years following the initial sale of each home. The initial "new" sale of the homes is not subject to the fee.

The funds from the conveyance fees are to be collected and administered by a non-profit open-space land trust, the Placer Land Trust, for the acquisition and management of open space, with a priority focus on vernal pool and grassland habitats in Western Placer County. The majority of these funds will be used to purchase conservation easements on qualifying lands, excluding any development of the land in perpetuity. It is estimated that the fees could raise up to \$85 million over the next 20 years.

The benefits of this new type of arrangement are obvious. As is illustrated by the West Roseville settlement, the funds raised over twenty years from a conveyance fee far surpass anything the developers could have contributed up front for open-space acquisition. These fees also allow for a continual source of income for the management of the habitat by the open-space land trust. While an extra 0.5% on the sale price of a home in an already inflated housing market may seem burdensome, the 0.5% fee is in fact a small price to pay compared to the increase in property value that will result from the subsequent conservation of land in the area.

While this approach thus far remains a settlement tool, it may not be long before it becomes part of the proposal package, though it must be noted that cities and counties cannot themselves impose such a fee because of legal limitations on property taxes. As these new settlement practices are revised and refined, Stoel Rives will continue to remain in the forefront of these new developments in order to provide its clients with a multitude of options for the successful resolution of disputes.

About the Author

Greg Gatto is an associate in Stoel Rives' San Francisco office. He focuses his practice on environmental, natural resource, land use, real estate and agricultural law.

What's New from National

Highlights from the November 2004 National Board of Directors Meeting.

One of the hottest topics at the November Board of Directors meeting involved the proposed changes to the requirements for obtaining the SRA designation. The most divisive proposal, to substitute additional education for the residential demonstration report, was withdrawn by the project team prior to being voted on by the Board. The project team will continue developing an alternative requirement for the demonstration appraisal report, expected to be rolled out by 1/1/2006. The Board did, however, approve increasing the experience review requirement from 2,000 to 3,000 hours. In addition, the college degree requirement for the SRA designation was also changed to comply with the proposed AQB requirement. The project team will now enter Phase II, with work on development of specializations, additional membership benefits, continuing education and professional development, and marketing in conjunction with the new Visibility Campaign (promotion of the designations).

Similarly, the recently-formed General Admissions Project Team will begin reexamining the requirements for the MAI designation. It is reported that possibly significant changes will be discussed and developed in the coming months with recommendations to the National Board of Directors made sometime next year. Okay, relax all you MAIs out there. Although changes may be proposed, it is believed that any potential changes will not lower or otherwise dilute the high standards for obtaining the MAI designation.

The Board of Directors also passed a governance restructure proposal with no modification. The plan calls for the reduction of the Board of Directors to 26 members, which is based on two directors from each region. The plan also decreases the overall number of national committees.

With respect to finances, the Board of Directors reported that income from most sources was ahead of budget projections compared to 2003. The Board approved a new budget that keeps membership dues at their current levels. However, the Board also approved dipping into the reserve account to fund an extensive national visibility ad campaign. The
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campaign will target four potential client groups for appraisers: lawyers, financial planners, accountants, and lenders. The mediums used will include national print advertising, local market radio, and online advertising. The cost of the campaign: a cool \$1.4 million, of which over \$400,000 will come from the operating budget and the rest from reserves.

Also reported at the Board of Directors meeting was that membership in the Appraisal Institute is growing. The good news is that the number of new associates and MAIs is increasing. The bad news is that the Appraisal Institute is losing SRAs faster than new ones are being designated, resulting in a net drop in the number of designated residential members. Hopefully, this trend will be reversed by the proposed changes to obtaining the SRA designation.

Residential Market Analysis and Highest & Best Use Course Replaces 1999 Seminar.

The seminar Case Studies in Residential Highest and Best Use will no longer be available. A new two-day course, Residential Market Analysis and Highest & Best Use, has been developed to meet the new qualifying education requirements, **and will be offered by the Sacramento Sierra Chapter May 5 and 6, 2005.**

Residential Market Analysis and Highest & Best Use provides a fresh look at the relationship between market analysis and highest and best use. Students will discover where to find the information needed to make highest and best use decisions and how to interpret this information. They will learn how to read and map a market area for a subject property and discover the essential links between market analysis, highest and best use analysis, and the three approaches to value. The course offers practical experience in solving highest and best use problems similar to problems encountered in the real world. Theory is translated into practice through extensive and varied classroom activities encouraging students to become actively involved in applying concepts to real-world situation. Successful completion of the course and exam should satisfy most states' education requirements in the content area identified as residential market analysis and highest and best use.

New Subdivision Valuation Seminar Premiering March 2005

A new seminar entitled Subdivision Valuation: A Comprehensive Guide to Valuing Improved Subdivisions will debut in March 2005, **and will be offered by the Sacramento Sierra Chapter on October 13, 2005 at Lake Tahoe.** The new seminar was developed by Don Emerson, MAI. The new seminar provides a complete look at subdivision valuation methodology as it relates to valuing improved subdivisions. Appraisers who provide opinions of value for proposed subdivisions or a group of existing lots or units will find this seminar a valuable source of reference and ideas. Students will come away with techniques appraisers need to value a group of lots or units that must be marketed over a period of time. Comprehensive examples are provided to explain how line-item profit and discount rate selection are handled in conjunction with discounted cash flow analysis. Ample time is given to typical problems encountered by appraisers in specific valuation scenarios. At this seminar, students will learn how to:

- Recognize elements of a subdivision and when to apply subdivision analysis to reflect a bulk sale value.
- Differentiate between a "bulk" sale for a group of lots and applying subdivision analysis to reflect vacant land value.
- Understand how to apply subdivision valuation methodology to solve for a wide variety of valuation scenarios at different points along the time line.
- Recognize the strengths and weaknesses of the three approaches to value as they relate to subdivision analysis.
- Analyze risk and when it occurs in the three general development phases.

Please note: Students should have general working familiarity with spreadsheet applications dealing with DCF analysis and present value concepts. This is not an introductory seminar in subdivision valuation and/or DCF techniques.

Residential Demo Report Writing Seminar Now Available Online

Residential associates who still need to write their demonstration report can now take the report writing seminar online. This one-day program focuses on the mechanics of demonstration appraisal report writing and will help ensure that the appraiser's presentation is logical and understandable. The seminar also provides an extensive examination of the cost, sales comparison and income

capitalization approaches; highest and best use; reconciliation and the final value opinion. Associate members are encouraged to attend the seminar before beginning their demonstration report. (Attendance is mandatory for those associates who have never taken the seminar and need to review and resubmit their demo report.) Designated members are encouraged to attend at any time. *The online version offers 15 Appraisal Institute CE hours. This seminar is not yet approved for state CE credit.*

Hot Off The Press - New Limited Partnerships Book to be Released in December

Real property appraisal and business valuation are distinct disciplines guided by different principles. Valuing Undivided Interests in Real Property: Partnerships and Cotenancies, by Dennis A. Webb, MAI, ASA, should help bridge the gap that exists between these related fields, providing real estate property appraisers with a working knowledge of the requirements of business valuation and business valuers with information on the techniques of real property appraisal. The text, which will be available in December, explores two common forms of real property ownership – the family limited partnership and common tenancy – and demonstrates the methods applied and the steps followed to arrive at a value conclusion under each scenario. The book concludes with multiple appendixes and a bibliography.

Appraisal Institute members can acquire a single copy of this 346-page hardcover publication at the member introductory price of \$40 through March 31, 2005. The regular member price will be \$50 and \$60 for nonmembers. (Stock number 0699M)

Advisory Review Update

At the June Board of Directors meeting, Regulation 1 was changed to reflect new terminology for an educational experience review that has been offered to associates for a number of years. Long referred to as Mentoring Review, a general associate has the opportunity to ask for a review of his or her work for educational feedback. To eliminate some confusion with other AI programs, the name has been changed to Advisory Review (as was done for residential associates in 2003) but the benefits are unchanged. At the time of submission for

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the initial experience level, the associate has the option to have an independent and helpful work review. The intent is educational; to provide counseling and ultimately help the associate toward meeting the requirements of the final level experience review. The review is optional but recommended for all associates.

From July 2004 and going forward, Advisory Review responsibility has been transferred from the chapters to a nationally trained screener, selected from the Experience Review Panel. National screeners performing the Advisory Review will be chosen from the associate's chapter or region if trained and available.

Associate Member Alerts

Guidance Program Planned

The Sacramento-Sierra Chapter and the Northern California Chapter are jointly planning a week-long Associates' Guidance Program for June 2005. The program will include Ted Whitmer's Comprehensive Exam Review Workshop and the General Demonstration Appraisal Writing Seminar. But wait, there's more! There will also be a workshop featuring the Directors of Screening and Experience Screening who will answer questions regarding the experience review process, demonstration reports, and the comprehensive exam. The program may also include the Demo Lock-In, a continuing education seminar. The week will conclude with a networking social. And if that's not enough for you, the event is likely to be held in the beautiful Napa Valley. Go for the program, stay for the wine. Watch for additional details and registration information in early 2005.

General Comprehensive Exam – February 21st and 22nd

The next two-day General Comprehensive Exam will be held at the Oakland Airport Hilton Hotel on February 21-22, 2005. For registration information, please visit http://appraisalinstitute.org/membership/members_downloads/guidebook.pdf or call the Sacramento-Sierra Chapter office at (916) 972-9700.

Associate Membership Application Fee is being Waived - Save \$125

The Appraisal Institute is waiving the \$125 application fee for new Associate members who join any time during 2005!

(Note: no portion of the 2005 dues will be waived.) To find out more about Associate membership in the Appraisal Institute or to join today visit <http://www.appraisalinstitute.org/join/default.asp#associate>.

Associate Membership

Associate membership is open to appraisers who are performing work governed by the Uniform Standards of Professional Appraisal Practice (USPAP), and may be pursuing the Appraisal Institute's distinguished MAI and SRA designations. As an Associate member of the Appraisal Institute, you demonstrate to your clients that your becoming educated beyond the basic level necessary for state certification, and that you are seeking to be at the top of the valuation profession.

Affiliate Membership

Affiliate membership is open to individuals who are interested in the Appraisal Institute and the appraisal profession, but are not performing work governed by USPAP.

Student Affiliate members can jump-start their career by joining the Appraisal Institute at a significant discount. Student affiliates receive all the same benefits as other members, including the opportunity to learn from and network with professionals at chapter meetings. To be eligible, the student affiliate member must be enrolled in six or more credit hours in a degree program relative to real estate appraisal, finance and/or economics, and must show proof of student status annually.

Common Misconceptions About USPAP

Continuing our series on USPAP, here are some more popular misconceptions.

Misconception: "The Appraisal Standards Board determines who has to comply with USPAP."

Reality: Neither the ASB nor USPAP itself decides who must comply. Individuals comply with USPAP either because they want to or they are required by law, regulation or agreement with the client to comply. (Lines 10-12 and 60-61.)

Misconception: "You can't appraise a property if you have an interest in the property or in the parties involved."

Reality: An interest with respect to the property or parties involved must be disclosed in the certification. (Lines 1182-1184, 2837-2838, and 3262-3263.) **However**, an appraiser CANNOT have a direct or indirect interest in the property of the transaction if the assignment is subject to the appraisal requirements of FIRREA.

Misconception: "If the borrower is going to get a copy of the report, that means they are the intended user."

Reality: Intended users are identified by the appraiser as intended users at the time of the assignment, based on communications with the client. (Lines 428-429) Just because a person or entity receives a copy of the report does not mean they are an intended user. (Lines 4320-4325.)

Misconception: "If Client A hired you to do an appraisal, you can't do a reappraisal for Client B unless you get a written release from Client A."

Reality: The only reason you couldn't reappraise the same property for Client B would be if, in doing so, you would breach the confidentiality of your relationship with Client A. Advisory Opinion 10 suggests obtaining a written release from the first client (Client A) to ensure no unauthorized breach of confidentiality occurs. However, a written release is not a USPAP requirement. (AO 10, Lines 78-80.)

Misconception: "It's okay to provide a 'letter update' that states 'there has been no change in market conditions since the previous appraisal' so the previous appraisal is still current."

Reality: Making so brief a statement without providing the data and analysis to supports it can be misleading. Saying "no change in market conditions" implies "no change in value"; and stating a relationship to a previous value opinion is an appraisal. (Lines 347-349.) An appraisal must be developed in accordance with Standard 1, 7, or 9. An "update" can be provided in a letter – provided it meets the reporting requirements for an appraisal.

Misconception: "If you were hired to review an appraisal of a property, you can't be hired later to do an appraisal of that same property."

Reality: USPAP has no such restriction. Just because you review an appraisal of a property, it doesn't mean you now have an interest in that property or the parties involved, or that you would necessarily be biased in the new appraisal.

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Misconception: “You have to send the original, signed copy of the report to the client. Then in your workfile, you keep an unsigned copy. That way you can make additional copies with original signatures from the one in your workfile.”

Reality: You are required to keep a “true copy” of the report sent to the client (line 151), which by definition is what is given to the client (line 453). The “true copy” would be identical to the one sent – which means it would include a copy of the signature. How else could you later prove, should the need arise, which copy you sent to the client? [Note: USPAP doesn’t require a “report” to be signed – it requires the certification to be signed.]

Misconception: “A real estate appraisal report has to have a ‘Regional Description’ section.”

Reality: Standards Rule 2-2, which outlines the reporting requirements for real property appraisals, does not require a section with this heading. However, for a Self-Contained or Summary Appraisal Report, “regional” information is often part of the “information analyzed” (lines 903 and 1029) and therefore would be addressed.

Misconception: “An appraiser can do an Administrative Review.”

Reality: An “administrative review” is a review that is NOT done by an appraiser. (AO 6, Lines 23-25.)

Misconception: “USPAP doesn’t allow you to provide ‘letters of opinion.’”

Reality: If a “letter of opinion” (i.e., a value opinion stated in letter format) meets USPAP’s reporting requirements (Standards 2, 8, or 10), it is permitted. However, a one-page letter that doesn’t meet USPAP’s reporting requirements is not permitted. (Lines 4064-4069.)

Letter from the Editor

Well my year as Editor is up with this newsletter. Its been an interesting year

to say the least. Although a lot of work goes into the newsletter, the things you learn and the people you meet make it all worthwhile. In fact the same is true with any involvement in the local chapter. So let me get on my soapbox for just a minute and say yeah, it takes time away from your work or family life, but not that much; a couple of hours per month. And the friends and business connections you make more than offset the lost time. You also get an understanding of how the local chapter works and how National doesn’t (just kidding). So please get involved in the chapter, especially you Associate Members.

Even though being the Editor has been a good experience, I do have some regrets. I wish I could have gotten more newsletters out, but my time constraints just didn’t permit it. Also, there was one story that I wanted to run early in the year, but it was just too pointed and I couldn’t figure out a way of making it politically correct, so I bagged it. For the most part though, I’ve tried to focus the newsletter more on local news and people and to make it more enjoyable to read.

Lastly, I would like to thank Emily Bernardis, the Executive Director of the Sacramento-Sierra Chapter. No, this isn’t one of those obligatory and meaningless end of year thank yous. I really mean this one. Emily does a lot of things for this chapter, but she also helps me out immensely by formatting the content I give to her. As any news wag can tell you, formatting is one of the most time-consuming and frustrating aspects of putting out a newsletter. So, Emily, thank you I really do appreciate your help.

At this point, I don’t know who is going to fill my shoes as editor, but I’m sure it will be someone more capable than me and that the newsletter will continue to be an effective source of information for the chapter members. So have a Merry Christmas and a Happy New Year and I’ll see you around.

UPDATE YOUR MEMBER ACCOUNT ONLINE

Did you know that you can update your Appraisal Institute membership information online? Heck yeah. Rather than sending correspondence or making a phone call to the National headquarters in Chicago, you can update your membership information online at the Appraisal Institute website (www.appraisalinstitute.org). Information such as your business address, home address, telephone number, fax number, email address, chapter affiliation, where to send your dues invoices, and whether or not your available for fee assignments can all be changed with the click of a button. And a little typing. Designated members can also give brief descriptions of the type of work they do and the market areas they cover.

You must first sign-up for an account (no, you won’t have to pay anything; it’s not that kind of account) and create a user name and password. Then, after you’ve signed in, you click on the “Update Account Information” text in the Members Only box in the upper left side of the web page. From there, just fill in the blank fields and click the boxes. Have fun. Go crazy.

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