

***THE SEVEN PSYCHOLOGICAL LAWS OF EFFECTIVE APPRAISAL
STORYTELLING***

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The preparation and utilization of effective appraisals and appraisal testimony may be summarized by what I refer to as the Seven Psychological Laws of Effective Appraisal Storytelling. The appraiser, as storyteller, unlike storytellers in general, is governed by the standards of the appraisal profession as set forth in the Uniform Standards of Professional Appraisal Practice (USPAP). This paper will discuss effective storytelling within the context of USPAP.

Storytelling consists of two fundamental elements. First, it consists of the words spoken or written. Specifically, it consists of the substance of those words. This involves the facts, conclusions and credibility of the storytelling. The guidelines for an appraiser with regard to this aspect of storytelling are set forth generally in Standard 1 of USPAP which states as follows:

"In developing a real property appraisal, an appraiser must be aware of, understand, and correctly employ these recognized methods and techniques that are necessary to produce a credible appraisal."

The second element consists of how the appraiser says those words or presents those words. This involves the format of the appraisal and the structure of testimony resulting from that appraisal. The guidelines for an appraiser with regard to this aspect of storytelling are set forth generally in Standard 2 of USPAP which states as follows:

"In reporting the results of a real property appraisal, an appraiser must communicate each analysis, opinion, and conclusion in a manner that is not misleading."

Thus, when telling a story, an appraiser is governed by these two standards. Within these standards, an appraiser has the freedom of choice as to what the story consists of and how to tell that story. Accordingly, I set forth the Seven Psychological Laws of Effective Appraisal Storytelling as follows:

- 1. The story shall be visually appealing.**
- 2. The story shall be user friendly.**
- 3. The story shall be interesting.**

4. The story shall contain accurate facts.
5. The story shall present supportable conclusions.
6. The story shall demonstrate the appraiser's credible knowledge.
7. The story shall create a lasting perception.

1. THE STORY SHALL BE VISUALLY APPEALING.

Standards Rule 2-2: Each written real property appraisal report must be prepared under one of the following three options and prominently state which option is used: Self-contained Appraisal Report, Summary Appraisal Report or Restricted Appraisal Report.

Standards Rule 2-2 sets forth the standards with regard to the format of a report. It leaves the choice to the appraiser, the client and the attorney as to which format to choose and as to the structure of the report within that format. Thus, the question should always be asked:

Does this report create an appealing visual image to the reader of the report?

Appearance is psychologically important. The first impression a person or thing or event creates is significant. This is a well-known phenomenon as to how we look and how we meet people. Likewise, the appearance of an appraisal is significant to the first time reader or user of an appraisal.

This is demonstrated by selecting several appraisals from different appraisers and placing them side by side on a table. If you ask someone unfamiliar with appraisals to select one from that group, it will probably have the following characteristics. It will probably have some color on the cover, some bold or large print and a logo or something similar on it. Similarly, it will probably also attract the attention of the judge or jury. If nothing else, it will be easy for the judge to find amidst all the other papers and exhibits on the bench.

Next, consideration should be given as to whether the text is visually attractive and appealing. Chapter and perhaps significant paragraph headers should be used. The headers should be bold so that they stand out. The primary elements of the appraisal should be noticed simply by scanning the headers.

Long paragraphs containing a large amount of text should be avoided. The eye and thus the reader tend to skip through long paragraphs. For the same reason, use bullet points wherever possible. The eye is attracted to bullet points which assists notice and retention of the information.

Photographs will also likely attract attention. Consideration should be given as to how a

well-placed photograph will aid in the understanding of the story. Significant photographs should be placed in the text of the appraisal. A collection of photographs at the end of an appraisal will probably receive little attention.

2. THE STORY SHALL BE USER FRIENDLY.

Standards Rule 2-1: Each written or oral real property appraisal report must: (a) clearly and accurately set forth the appraisal in a manner that will not be misleading; (b) contain sufficient information to enable the person(s) who are expected to receive or rely on the report to understand it properly; (c) clearly and accurately disclose any extraordinary assumption or limiting condition that directly affects the appraisal and indicate its impact on value.

Standards Rule 2-2: Each written real property appraisal report must be prepared under one of the following three options and prominently state which option is used: Self-Contained Appraisal Report, Summary Appraisal Report or Restricted Appraisal Report.

Is the report user friendly?

As with the visual image of the report, USPAP is very general with regard to the format of the report. USPAP sets forth the essential elements of the contents of the report, but allows the appraiser the choice of the format of the report. Often, there is very little consideration given to format other than that format which the appraiser normally uses.

When a report is prepared in anticipation of trial, the appraiser should give consideration to the ultimate user of the report. It is not the client or the attorney. It is the judge. The judge may not be overly familiar with an appraisal. If the judge cannot easily find his way around the report, he will likely lose attention and focus on the substance of the appraisal and will probably just lay the appraisal aside.

If a judge has seen an appraisal, it will typically have been a real estate appraisal. Thus, if an appraiser is preparing a personal property report, the report should be formatted as closely as possible to a real property appraisal. The reason for this is that if the appraisal format appears unfamiliar to the judge, it creates the possibility of doubt. It is important to avoid doubt.

A simple starting point that is often overlooked is to number the pages 1,2,3 and so on. The appraiser should avoid using roman numerals or chapters tied with page numbers such as 1-22. This often creates confusion as well as making it easier for the court reporter in the preparation of the transcript.

If the appraiser will use the report in testimony, and this should always be the assumption, it is quite useful to place external tabs on important sections such as the comparable sales, cost or income sections and the final value reconciliation section. In addition, the appraiser should always tab more extensively the working report that the appraiser will actually use in testimony. This aids significantly for quick reference both on direct testimony and on cross examination. It is quite disconcerting and creates doubt

to observe an appraiser fumbling in the appraisal to find the right page.

The appraiser should give careful consideration to charts and graphs. They are very effective storytellers. They should be used as much as possible to summarize or present important information. They are an excellent way to attract the reader's attention, but, for just that reason, they should be used judiciously. For example, a chart may be very useful to present the population of Houston for the last thirty years but that does not add

It is effective to present testimony through the use of boards. It is effective because it is visual and allows the witness to read and testify from the board rather than looking down at or through the appraisal report. It also allows the focus of the judge's attention. Thus, if boards are to be used, it is useful to plan in advance so that the appraisal can be formatted to facilitate this.

For example, a three-page DCF is not conducive for use on a board or for understanding by the user when viewing it in a report. Also, many personal property appraisal reports use extensive printouts or listings or equipment. The appraiser should take efforts so that an untrained reader can easily understand and interpret the printout. It is useful to prepare excerpts of important items with full explanation.

3. THE STORY TOLD SHALL BE INTERESTING.

Standards Rule 1-2(a): adequately identify the real estate, identify the real property interest, consider the purpose and intended use of the appraisal, consider the extent of the data collection process, identify any special limiting conditions, and identify the effective date of the appraisal.

Standards Rule 1-2(b): define the value being considered; if the value to be estimated is market value, the appraiser must clearly indicate whether the estimate is the most probable price:

- i. in terms of cash; or
- ii. in terms of financial arrangements equivalent to cash; or
- iii. in such other terms as may be precisely defined; if an estimate of value is based on sub-market financing or financing with unusual conditions or incentives, the terms of such financing must be clearly set forth, their contributions to or negative influence on value must be described and estimated, and the market data supporting the valuation estimate must be described and explained;

Standards Rule 1-2(c): consider easements, restrictions, encumbrances, leases, reservations, covenants, contracts, declarations, special assessments, ordinances, or other items of a similar nature.

Does the appraisal tell an interesting story?

Yes, an appraisal can be interesting or at least more interesting than the opposition's appraisal. It is important to remain focused on the purpose of the report. Its purpose is to tell a story. Thus, anything that is not useful to telling the story should probably not be in the body of the report.

Each paragraph should enhance the overall story that is being told. The paragraphs should be short, concise and active. These types of paragraphs are more likely to maintain the reader's attention. To put this another way, there should be nothing of a long and extensive nature in the body of the report that you would not use on direct testimony. Thus, a useful test is if the information will be covered on direct, it should be placed in the main body of the report. If not, it should be placed in an addendum.

An example of this is an office building report which contains twenty pages of regional and city discussion. The question that should be asked is whether anyone including the author actually reads this information. In presenting the appraiser on direct testimony, it would be unlikely for purposes of an opinion of value that the average annual temperature or the med center's two recent Nobel prize winners or the slow increase in household formations would be covered.

Similarly, appraisers frequently place their assumptions and limiting conditions just after the cover page. Thus, the reader opens the report and is immediately confronted with, for example, three pages and twenty-nine items of assumptions and limiting conditions. It is likely that the first impressions created by this report is why there are so many assumptions and limitations. These are generally boiler plate and rarely discussed on

4. THE STORY SHALL CONTAIN ACCURATE FACTS.

Standards Rule 1-1(b): not commit a substantial error of omission or commission that significantly affects our appraisal.

Standards Rule 1-1(c): not render appraisal services in a careless or negligent manner, such as a series of errors that considered individually, may not significantly affect the results of an appraisal, but which, when considered in the aggregate, would be misleading.

Standards Rule 1-4(b): collect, verify, analyze, and reconcile:

- i. such comparable cost data as are available to estimate the cost new of the improvements (if any);
- ii. such comparable data as are available to estimate the difference between cost new and the present worth of the improvements (accrued depreciation);

- iii. such comparable sales data, adequately identified and described, as are available to indicate a value conclusion;
- iv. such comparable rental data as are available to estimate the market rental of the property being appraised;
- v. such comparable operating expense data as are available to estimate the operating expenses of the property being appraised;
- vi. capitalization and/or rates of discount.

Standards Rule 1-4(c): base projections of future rent and expenses on reasonable clear and appropriate evidence;

Standards Rule 1-4(d): when estimating the value of a leased fee estate or a leasehold estate, consider and analyze the effect on value, if any, of the terms and conditions of the lease(s);

Standards Rule 1-4(e): consider and analyze the effect on value, if any, of the assemblage of the various estates or component parts of a property and refrain from estimating the value of the whole solely by adding together the

Standards Rule 1-4(f): consider and analyze the effect on value, if any of anticipated public or private improvements, located on or off the site, to the extent that market actions reflect such anticipated improvements as of the effective appraisal date;

Standards Rule 1-4(g): identify and consider the appropriate procedures and market information required to perform the appraisal, including all physical, functional, and external market factors as they may affect the appraisal;

Standards Rule 1-4(h): appraise proposed improvements only after examining and having available for future examination:

- i. plans, specifications, or other documentation sufficient to identify the scope and character of the proposed improvements;
- ii. evidence indicating the probable time of completion of the proposed improvements; and
- iii. reasonably clear and appropriate evidence supporting development costs, anticipated earnings, occupancy projections, and the anticipated competition at the time of completion.

Standards Rule 1-4(i): All pertinent information in items (a) through(h)

above shall be used in the development of an appraisal.

Standards Rule 2-3: I certify that, to the best of my knowledge and belief:

- the statements of fact contained in this report are true and correct.
- the reported analyses, opinions, and conclusions are limited only by personal, unbiased professional analyses, opinions and conclusions.
- I have no (or the specified) present or prospective interest in the property that is the subject of this report, and I have no (or the specified) personal interest or bias with respect to the parties involved.
- my compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.
- my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- I have (or have not) made a personal inspection of the property that is the subject of this report. (If more than one person signs the report, this certification must clearly specify which individuals did and which individuals did not make a personal inspection of the appraisal property.)
- no one provided significant professional assistance to the person signing this report. (If there are exceptions, the name of each individual providing significant professional assistance must be stated.)

Is the information presented accurate and consistent?

The facts gathered and developed by the appraiser are the very foundation of the appraisal. If the facts are suspect, the entire appraisal process will become suspect. This is the area where doubts about a story can be created by exposing a series of otherwise insignificant errors. The exposure of a series of errors in the relatively compact time frame of a trial can appear magnified.

Further, the appraiser should be aware of the impact of his certification that the facts contained in the report are true and correct. Each time that it is revealed that a fact is not true and correct, it appears that the appraiser is lying.

Accordingly, the following areas should be considered in developing the factual foundation for the story. USPAP directs the appraiser to collect and verify such data as are available. This statement involves several areas of attention. The appraiser should give attention to the collection process. The appraiser should be aware of the source of his information.

The appraiser should give consideration to the verification process. How does the appraiser verify? Who does the verification, the appraiser or an assistant? The more important the factual data, the more important the verification process becomes.

Finally, to collect and verify such data "as are available" the appraiser must have an appreciation of what data is available. It appears careless, or worse, if the opposing appraiser has better factual data or the opposing appraiser's sources are better.

The appraiser must be careful that the information is accurate but in addition the appraiser must avoid the appearance that all factual data was collected and verified by someone other than the appraiser. Even if the data was collected and verified by someone else, the integrity of the story may be maintained by the appraiser's detailed familiarity with the source, collection and verification process.

Care should be taken with regard to the presentation of the facts. All mathematical calculations should be double checked. The numbers that were inputted into the mathematical calculations should be reviewed for accuracy. A review of the internal consistency of facts should be undertaken. If a building has 199,000 square feet on page 2, it should also have 199,000 square feet on page 82. If the appraiser borrows text from a previous appraisal, the appraiser should perform a careful review to determine that the borrowed text fits the current appraisal in all aspects.

5. THE STORY SHALL PRESENT SUPPORTABLE CONCLUSIONS.

Standards Rule 1-3(a): Consider the effect on use and value of the following factors: existing land use regulations, reasonable probable modifications of such land use regulations, economic demand, the physical adaptability of the real estate, market area trends, and the highest and best use of the real estate;

Standards Rule 1-4(b): collect, verify, analyze, and reconcile:

- i. such comparable cost data as are available to estimate the cost new of the improvements (if any);
- ii. such comparable data as are available to estimate the difference between cost new and the present worth of the improvements (accrued depreciation);
- iii. such comparable sales data, adequately identified and described, as are available to indicate a value conclusion;

- iv. such comparable rental data as are available to estimate the market rental of the property being appraised;
- v. such comparable operating expense data as are available to estimate the operating expenses of the property being appraised;
- vi. capitalization and/or rates of discount.

Standards Rule 1-4(c): base projections of future rent and expenses on reasonably clear and appropriate evidence;

Standards Rule 1-4(d): when estimating the value of a leased fee estate or a leasehold estate, consider and analyze the effect on value, if any, of the terms and conditions of the lease(s);

Standards Rule 1-4(e): consider and analyze the effect on value, if any, of the assemblage of the various estates or component parts of a property and refrain from estimating the value of the whole solely by adding together the

Standards Rule 1-4(f): consider and analyze the effect on value, if any of anticipated public or private improvements, located on or off the site, to the extent that market actions reflect such anticipated improvements as of the effective appraisal date;

Standards Rule 1-4(g): identify and consider the appropriate procedures and market information required to perform the appraisal, including all physical, functional, and external market factors as they may affect the appraisal;

Standards Rule 1-4(h): appraise proposed improvements only after examining and having available for future examination:

- i. plans, specifications, or other documentation sufficient to identify the scope and character of the proposed improvements;
- ii. evidence indicating the probable time of completion of the proposed improvements; and
- iii. reasonably clear and appropriate evidence supporting development costs, anticipated earnings, occupancy projections, and the anticipated competition at the time of completion.

Standards Rule 1-5: In developing a real property appraisal, an appraiser must:

- a. consider and analyze any current Agreement of Sale, option, or listing of the property being appraised, if such information is available to the appraiser in the normal course of business;
- b. consider and analyze any prior sales of the property being appraised that occurred within the following time periods:
 - i. one year for one-to-four family residential property;
 - ii. three years for all other property types;
- c. consider and reconcile the quality and quantity of data available and suitability of the approaches used.

Are the conclusions and opinions reasonable in light of the facts?

A report consists of building blocks. First, the appraiser collects the facts. Second, the facts support a series of conclusions. Finally, the series of conclusions support the final opinion of value. A useful process when reviewing the report is to mark each conclusion or opinion offered. In deposition and in cross, the appraiser may be asked to list the facts upon which he formed his conclusion or opinion. If there are not facts or few facts upon which an opinion is based, it creates doubt. In addition, if there is less than a reasonable connection between the facts identified and the opinion offered, it creates doubt.

Statements such as the following are fertile ground for the creation of doubt: "I based my conclusion on my thirty plus years of professional appraisal experience," or "I can't specifically tell you the basis of my depreciation calculation, but it's contained in my computer program." In these instances, when asked to list the facts of the appraiser's professional experience which support a conclusion, it is likely to sound something like the following statements: "It is my gut feeling," or "my intuition," or "it just feels right,"

Some attention should be given to highest and best use. Too often, if the property is a functioning building, such as an office building, the conclusion is that the highest and best use is as an office building. However, many appraisers do not actually go through the process of determining a highest and best use. As a result, when asked to identify the facts and initial conclusions which support their opinion, it begins to sound a whole lot like their highest and best use conclusion is based on their professional experience. This, of course, creates doubt.

6. THE STORY SHALL DEMONSTRATE THE APPRAISER'S CREDIBLE KNOWLEDGE.

USPAP Preamble: These Standards are for appraisers and the users of appraisal services. To maintain a high level of professional practice, appraisers must observe these Standards. The users of appraisal services should demand work performed in conformance with these Standards.

USPAP Ethics Provision: An appraiser must perform ethically and competently in accordance with these Standards and not engage in conduct that is unlawful, unethical, or improper. An appraiser who could reasonably be perceived to act as a disinterested third party in rendering an unbiased appraisal, review or consulting service must perform assignments with impartiality, objectivity, and independence and without accommodation of personal interests.

USPAP Competency Provision: Prior to accepting an assignment or entering into an agreement to perform any assignment, an appraiser must properly identify the problem to be addressed and have the knowledge and experience to complete the assignment competently.

Standards Rule 2-3: I certify that, to the best of my knowledge and belief:

- the statements of fact contained in this report are true and correct.
- the reported analyses, opinions, and conclusions are limited only by personal, unbiased professional analyses, opinions and conclusions.
- I have no (or the specified) present or prospective interest in the property that is the subject of this report, and I have no (or the specified) personal interest or bias with respect to the parties involved.
- my compensation is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.
- my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- I have (or have not) made a personal inspection of the property that is the subject of this report. (If more than one person signs the report, this certification must clearly specify which individuals did and which individuals did not make a personal inspection of the appraisal property.)
- no one provided significant professional assistance to the person signing this report. (If there are exceptions, the name of each individual providing significant professional assistance must be stated.)

As much as anything, a court bases its decision on the credibility of the witness. Credibility is a combination of many factors. It certainly is reflected in the facts and opinions presented. It is reflected by the appraiser's knowledge of the property and the appraisal process. It is reflected by how he applied the appraisal process and whether he did what he said he did in the report.

A useful review process is to go through the report and highlight all the verbs which indicate that the appraiser did something. I inspected. I gathered. I reviewed. I confirmed. I discussed. I determined. I analyzed. When an appraiser says he did something, it is useful to explore what he really did. What did his doing really consist of? There are usually numerous examples where he said that he did something and, upon examination, he did not really do it or someone else really did, or the appraiser may not know. This creates doubt.

Consideration should be given to the choice of the market value definition contained in the report. The appraiser first should determine whether there is a specific definition of market value within the jurisdiction. It appears less than thorough to have to explain why the statutory definition was not included in the report. The response often given is that the definitions are the same. If this is so, why not just place the statutory definition in the report?

The next step is to identify and more importantly explain the specific type of market value definition that is being used in the appraisal. If the choice is fee simple rather than leased fee, the appraiser should clearly explain the differences between the two approaches. This is particularly significant because most appraisals are performed on a leased fee basis. It is also significant if comparable sales or sales of the subject are likely to be an issue. Similarly, this applies to personal property appraisals. A clear explanation should be made as to whether the appraisal concept is value-in-use, value-in-exchange, removed, installed or in place.

The appraisal should fully discuss the weight given to each approach and why the particular significance was given to that approach. It is disconcerting to see thirty pages of cost approach dismissed with a single statement that the cost approach was given no weight due to the age of the building.

A thorough understanding of the property and the industry demonstrates credibility. This is particularly true for personal property and real estate with specific uses. A description should include what the property is, how it is used and the business background of the property. For example, an appraiser who is very familiar with the mini-storage warehouse business, golf course business, hotel business, etc., will have a distinct credibility advantage over an appraiser who is not as knowledgeable.

If the appraiser relied on an outside source for information, the appraiser should be prepared to fully discuss the extent of the reliance and the reliability of the source of the information.

The obvious should not be overlooked in the discussion of an appraiser's credibility. Many appraisers are governed by USPAP and in fact some states such as Texas require a

state licensed appraiser to comply with USPAP. If the appraiser certifies that his appraisal is in compliance with USPAP and probably even if he does not, the appraiser should actually read USPAP and actually determine that the appraisal is in compliance.

For example, an appraiser prepared a restricted appraisal which under USPAP is restricted to use and reliance only by the appraiser's client. Under cross-examination, the appraiser became confused and defensive and stated that in this instance the Court was his client.

Finally, and this should be self-evident, an appraiser should give attention to spelling, grammar and punctuation. Mistakes such as these can make an appraiser appear unknowledgeable, or just as bad, careless.

7. THE STORY SHALL CREATE A LASTING IMPRESSION.

Rule 1-5(c): consider and reconcile the quality and quantity of data available and analyzed within the approaches used and the applicability or suitability of the approaches used.

Does the report aid the reader in retaining a lasting perception of the opinion of value?

This can be summarized by the old adage that you should, (1) tell what you are going to

Executive summaries at the front of the appraisal are very useful. A reader should be able to read the two page executive summary and have an understanding of the appraisal. Similarly, the reconciliation should be more than, "I looked at the three approaches and reached a conclusion." It is an opportunity to retell the story and to test whether the facts and conclusions support the final opinion.

Finally, an appraiser should prominently display the value of opinion at the very front and at the very end.

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