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VAAO INSTITUTE HELD

The 1960 VAAO INSTITUTE was held on June 22nd., 23rd. and 24th. at the University of Virginia in Charlottesville.

The main comment heard was that our annual school or institute "is improving every year." We can be justly proud of these excellent programs so carefully prepared by the School Committee.

.....and now, the Annual VAAO Meeting! Yes, it's later than you think, time for the annual meeting; to be held this year on September 1st. and 2nd. in the Cavalier Club at Virginia Beach.

Here's hoping the weather holds good. We are looking forward to a gala occasion, mixed with new ideas and plans for the continued progress of the Virginia Association of Assessing Officers.

GOOD NEWS FROM THE MANUAL COMMITTEE

We understand that, with the collaboration of the Bureau of Public Adminstration of the University of Virginia, the VAAO Manual prepared by the Manual Committee of our Association will be ready for distribution at the time of our Annual Meeting in September.

A sneak preview of this manual indicates that all concerned in its compilation may take pride in a most difficult job well done.

This is a "How to" manual combined with valuable tables, definitions, a list of available material, an index to Virginia tax laws and much much more. A great achievement indeed; you will prize your copy of the Assessor's Guide.

The heart of the wise teacheth his
mouth, and addeth learning to his lips.

Prov. 16:23

STATE MAPPING A BOON TO MANY CITIES, COUNTIES AND TOWNS

A note from E. C. Curry, Jr. indicates the Mapping section, of the State Department of Taxation's Division of Appraisal and Mapping, is doing a volume business in aiding the various political subdivisions of the State with their mapping problems.

Cities and Counties for which new maps have recently been prepared in the field or are in process, are, Henry County, Prince William County, Fauquier County, Goochland County, Pulaski County, Norfolk County, Princess Anne County and the City of South Boston.

New maps delivered within the past twelve months are of:Alleghany County, James City County, Chesterfield County, Brunswick County, City of Bristol and City of Falls Church, making a total of 6 completed maps.

Maps now on the drafting tables are of 6 more areas planned for delivery in the near future, including; the Counties of Floyd, King George, Hanover, Powhatan, Wythe, and the Town of Abingdon.

And thats not all! Maps have been revised for the Counties of Dinwiddie, Augusta, Giles, Nansemond, and Louisa.

Add to the above a few assists with transfers and/or acting as consultants for the following Counties, Cities and Towns: Loudoun, York, Southampton, Greensville, Rappahannock, King William, New Kent, Charles City, Madison, Alleghany, Bath, Brunswick, Essex, Fairfax, Gloucester, Powhatan, Richmond, Wise, James City, Arlington, Orange, Henry, Goochland, Bristol, Staunton, Hopewell, Falls Church, Norton, Charlottesville, Abingdon, and Poquoson, making a total of thirty-one (31) in all.

This is great news "Red" and we appreciate your interest in reporting the progress being made throughout the state in real property mapping.

Great credit is due you for your untiring efforts to simplify and improve mass mapping methods.

The Editor

AMENDMENTS TO TAX LAWS ENACTED

Section 58-811.1 of the Tax Code of Virginia, enacted in 1954, provided for assessment of buildings as of date of completion. The fair market value of the building was then pro-rated for that portion of the year in which building was complete.

Under Virginia law, tax bills not paid by December fifth are subject to 5% penalty. Because Section 58-811.1 put no time limit on these partial assessments, some localities assessed properties too late to mail tax bills by December fifth.

As a result, in some cases the taxpayer received his bill after the penalty date. Considerable confusion was caused among buyers of properties on which partial assessments had been made, and also among loaning agencies, their attorneys and builders, as to who should pay what part of the partial assessment.

In 1960, the General Assesmbly amended Section 58-811.1, to provide that on properties assessed for any years, after September first, the five per cent penalty date would be February fifth, instead of December fifth.

This act also was amended to provide that no improvements be assessed for a fractional part of the year, after November first.

Section 58-1142 provides for correction at any time of mere clerical error or calculation with or without petition from taxpayer.

The law also provides that, refunds on erroneous assessments shall be limited to three years from the thirty-first day of December of the year in which such assessment was made.

Section 58-1142.1 states that a governing body may provide by ordinance for refunds, but not after three years have elapsed since payment of erroneous amount.

J. T. Rose, chairman
Legislative Committee

JUDGEMENT AND THE APPRAISAL

Judgement has been defined as an act of the mind when it compares, discriminates, or otherwise considers things so as to judge their values or to understand their mutual relations. Opinion is defined as a judgement formed in the mind; a belief stronger than an impression but not based on positive knowledge. Judgement then may be likened to a binding thread running through the whole appraisal cloth.

An appraisal, therefore, is as good as the judgement of the appraiser. And so in every step of the appraisal process good judgement must be exercised.

Some procedures requiring the exercise of judgement are well established in appraisal literature. Others, such as appraisal theories, are not so clear. The selection of the proper theory in a particular case requires the utmost of good judgement by the appraiser and this is particularly so when there is a conflict among the authorities.

This area of disagreement by authorities is amply pointed out by a study of the book "Selected Readings in Real Estate Appraisal" published by the American Institute of Real Estate Appraisers.

With the hope of creating a new interest in the study of appraisal procedures and theory, a few areas of disagreement among authorities is pointed out below. All references are to the page number of "Selected Readings in Real Estate Appraisal".

AREAS OF DISAGREEMENT NEED STUDYING

That there is such need for studying the various areas of disagreement needs little substantiating. Such able men as Ayers J. DuBois and George L. Schmutz have stated that there is such a need. DuBois (p.572) says, "It is hoped that this paper will aid in the crystallization of view points of appraisers with regard to proper technique in making necessary allowances to give effect to anticipated depreciation. Opinion is now divided: it should become united as quickly as possible. While all viewpoints can be presented in educational courses, unsound concepts should be exposed and rejected, sound ones should be approved, and the pros and cons of debatable matters should be thoroughly expounded."

Once again, in speaking of the value of the various techniques, DuBois (p.1148) says that "much, or perhaps all, of the confusion and contrariety of opinion now existing can be eliminated and....leading 'authorities' in the appraisal field can be brought on to common ground where they can all see eye to eye."

IS VALUE RELATED TO THE PURPOSE OF AN APPRAISAL?

Ivan A. Thorson asks the question (p.6): "Is it reasonable that the purpose of the appraisal should call for such great variation in the value assigned to the same property?" He does not agree that there should be great differences. Dominick Dunn (p.104) is of the same opinion to a belief in, and use of, a multiplicity of values. Jesse W. Johnson is of the opinion that value is related to the purpose of an appraisal and states (p.26) that "...the purpose of the appraisal is foundational to the application of the appraisal process." "It is axiomatic," says Adrain F. McDonald (p.76), "that appraisals are made for variety of purposes, the nature of which determines the approach." Dunn poses the interesting question (p.101): "...is it not that very inconsistency that recognized appraisal groups are endeavoring to eradicate?"

OF CAPITALIZATION RATES

There is undoubtedly considerable misunderstanding concerning the correct method of selecting capitalization rates. John C. Tredwell quotes Frank D. Hall (p.995) as saying: "...we are not at all in agreement in our methods of estimating that rate." As to the best method to be used in the selection of a capitalization rate, Victor Free (p.546) says it should be a rate built up from its components of safe rate, rate for risk, and rate for service. R. M. Fischer (p.951) believes that the analytical treatment of the rate of capitalization is generally not a practical tool for the appraiser or the investor. Thurston H. Ross (p.970) advocates the band of investment of rate selection.

The use of split rates causes some controversy. Apparently in agreement, John R. White uses split rates in an example (p.1016): DuBois states that the principles underlying split-rate techniques are logical and correct (p.1154): Victor J. Free uses them in another example (p.552): and, in another example Frederick M. Babcock (p.848) makes use of the split rate.

On the other hand, many authorities such as John C. Tredwell (p.998) think that the split-rate method is subject to severe criticism. DuBois cites George L. Schmutz and Loring O. McCormick as two authorities who take the position that split rates are "dangerous" and should never be used except in certain cases (p.904). On the same page, DuBosi cites Phillip W. Kniskern as one who is of the opinion that the "characteristics" of each dollar of net income remain the same, whether it be allocated to land or to building, and for that reason every dollar of net income, regardless of allocation, must be capitalized at the same rate." Richard U. Ratcliff is of the same opinion as Kniskern and implies (p.976) that the division of an income stream into "land returns" and "building returns" is specious.

DEPRECIATION--IS THERE A CHANCE FOR AGREEMENT?

Straight-Line. Ivan Thorson says (p.925) that this method of charge-off is to be preferred in many instances and Charles B. Shattock (p.1064) agrees with this generally, Babcock (p.865) cites the use of this method by John P. Hooker in his paper, "Financial History of a Chicago Property." Free feels (p.546) that this method is "always questionable," and DuBois says (p.561) that the main criticism to be leveled against this procedure is that buildings do not experience loss of value in the manner indicated in the method. According to Babcock (p.865), the order of popularity of the methods of providing for depreciation in their order are: (1) straight-line, (2) sinking-fund or Hoskold, (3) the straight annuity, and (4) the declining-annuity method.

Sinking-Fund or Hoskold. When one considers the historical background of the "Hoskold's Tables," as cited by Max Fuhrer (p.943), he can understand why the rating of this method as second in popularity among appraisers may come as a surprise to some. We generously suggest that this popularity is not due to the fact that these tables produce a value lower than the straight line method. David L. Montonna is not so generous, however, when he says (p.1079): "Some appraisers employ a sinking-fund premise for the express purpose of reaching a more conservative conclusion."

While Babcock states (p.866) that Thorson uses the sinking fund method, one should read Thorson's article (p.6) where he states that he prefers the straight line method. However, even Thorson is not always consistant in his argument (p.925 and 933). Other adherents to the sinking fund method cited by Babcock are Joseph B. Hall and Philip W. Kniskern. Disapproving of the use of this method are DuBois (p. 564-566, 571-572); Babcock (p.851-855); Ratcliff (p.975); and Montonna (p.1079).

Straight Annuity. This method, according to Babcock, is third in order of popularity among appraisers. But the authorities differ in their opinion as to its usefulness over other methods. Opinions range from Montonna's (p.1079) that "The Invood premise should be the more frequently employed," to that of Thorson (p.933) where he states that such tables should not be used. Walter M. S. Buck (p.875 says that the weakness of this method of capitalization is readily apparent. Free uses the straight annuity method (p.552), as does DuBois (p.566), and states that it meets all of the requirements of the valuation problem (p.669).

Declining Annuity. Babcock is, of course, one of the exponents of the use of this method in the valuation process. Cited by him (p.866) are four others well known to the profession who approve of the use of the declining annuity method: Henry A. Babcock, Cuthbert Reeves, Roy J. Burroughs, and Ayres J. DuBois. Since this method is rated by Babcock as fourth in order of popularity in the appraising profession, many others, undoubtedly, disagree with the theory of this method or decline to use it for some reason.

Direct Estimates and Age-Life Tables. Many adherents to the use of direct estimates in determining accrued depreciation are presented in Selected Readings in Real Estate Appraisal. DuBois believes (p.560) that such direct estimates cannot be accepted as sound procedure.

THE THREE APPROACHES TO VALUE

There is little difference among the authorities concerning the usefulness of the three approaches as aids in determining value. Rather, the difference if any, is in the weight given each of the three approaches and the manner of using them.

Market Data Approach. Perhaps the questions here are: What is market value? Can we weigh the evidence of market value correctly? What weight should we give it in the appraisal process? Glyndon Priestman cites (p.1108) the disturbing results of a study made to determine the difference between sales on some twenty properties and the actual appraisals of these properties. Though the valuations, taken as a whole, were close to actual selling prices, Mr. Priestman was surprised that 75 percent of the valuations were actually below the selling prices.

The Income Approach. There is little disagreement among authorities as to whether or not this is a useful aid in the valuation process. The difference, if any is in the manner in which it should be employed or in the weight assigned to it. It is interesting to notice the weight given by Free (p.541) to residential appraising. Of more than passing interest is Mr. Free's statement concerning the capitalization rate to be used in the valuation of residential property by this approach (p.553).

OF INCOME STREAMS AND CAPITALIZATION METHODS

It appears from the many conflicting statements that there is widespread disagreement among the members of the appraising profession concerning the assumptions inherent in all capitalization methods. The shifting value of the dollar, undoubtedly, needs serious study (See Thorson p.925). Interesting fields of investigation should cover that relationship between the actual facts of physical depreciation over the life of a wasting asset and the basic assumptions concerning the income stream inherent in the various capitalization methods. If the actual facts of physical depreciation are not consistent with the bacic assumptions of a capitalization method, should we continue to teach it and advocate its use? It certainly seems unreasonable to do so, and Schmutz is almost as emphatic in his denunciation of such capitalization methods when he says (p.911), "Unfortunately, and utterly unreasonably as well, these future incomes not uncommonly are computed as level annuities; that is, unchanging in annual amount. This assumption (p.912) is so diametrically opposed to the way depreciation actually occurs, as evidenced by every day experience, that it warrants more than passing mention."

It seems reasonable to ask the question: Just what are we talking about when we speak of an income stream? DuBois says (p.1162), "A point which cannot be too strongly or frequently emphasized is that income estimates used in capitalization techniques are not forcasts of actual incomes." And no one will take issue with Babcock when he states (p.859) that no appraiser can possibly predict future returns year by year into the future, nor can he predict precisely in what year the end of economic life will occur. Then what do we have when we reach a final net figure derived from an "economic" rent? We cannot predict the future, but we most certainly must have an income stream for our calculations. Let us assume, for the moment, a level income stream. Babcock says (p.859) that the assumption of level incomes throughout the life of a building common to the straight-line, sinking-fund, and straight-annuity methods is defective. Buck says (p. 875) that, though the straight-line method pre-supposes a declining net income, proponents of this method do not explain how much of a decline it presupposes. If one must use that method which assumes a declining income stream which is consistent with the facts of phsical depreciation, would not this rule out the use of the straight-annuity method? This, of course, cannot be: the method is rated by Babcock (p.865) as third in order of popularity in the profession. Reason dictates that the straight-annuity is a good devise when the income stream "possesses the characteristics of an annuity." Perhaps, by its use, we are not estimating the value of a property with land and wasting buildings, but rather the "present worth of future benefits arising out of ownership to typical users and investors" which are legally enforceable in law.

CONCLUSION

That there is disagreement among some authorities in the appraising field is well known to older members of the profession. New members in the profession will have only a few back issues of The Appraisal Journal in their library. Selected Readings in Real Estate Appraisal offers to the novice the stimulating challenge to keep abreast of the past and to forge ahead with the future.

LONNIE H. POPE

NEWS FROM NORFOLK

Mr. Charles Sugg, real estate assessor for the City of Norfolk reports an increase of 92.24% in the assessed value of real estate in his city in the last ten (10) years, for a total 1960 value for 85,000 parcels of $373,001,920.

The newly annexed 13.50 acres has been reassessed and entered on the City land books; including 8500 buildings within the annexed area.

Out of over 30,000 assessments made during the last twelve months only 9 were appealed, of which, 6 were in the annexed area, two of these being sustained.

No case has been taken to court in the past ten years. (The above excerpts were elicited from the 1960 report of the Norfolk City Assessor)

The Editor.

NEWS FROM HAMPTON

Mr. George Hancock took the Appraisal I course this month in Connecticutt.

Hampton real property values increased $6,330,700. this year for a total, not including utilities, of $87,652,480. in assessed value. Hampton assesses at 35% of their appraisal which is approximately 90% of market. During the year 849 notices of increase in assessed value were mailed to property owners and 100 notices of decrease were mailed.

The Editor.

TWELFTH ANNUAL CONVENTION TO BE HELD SEPT. 1st. AND 2nd. IN THE CAVALIER CLUB AT VIRGINIA BEACH

All members should have received a program of the convention by this time, and sent in their reservation cards.

One change in the program has been an exchange of speakers for the Friday meeting at 10:30 A.M. Mr. Clarence Osthagen will speak in place of Mr. Donald Locke. Mr. Osthagen is Executive Director of the Tidewater Virginia Developement Council.

We look forward to meeting with you at Virginia Beach. Y'all come!

The Editor.