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APPRAISAL TODAY

How to connect with appraisers online. What's the best way for you?

I wrote about this topic in the September 2014 issue. There have been changes since then, especially in the increasing numbers of blogs, podcasts, etc.

The amount of information and opinions is expanding exponentially. I have joined many more personal and business-related services since my last article.

In this article, I refer to them all as "services". I focus on appraisal related services, but most of us, including myself also use them for personal information, such as a local NextDoor site and music and pickleball services.

Why connect with other appraisers online? There are many reasons, especially since many appraisers work solo: get and give advice, see if other appraisers are busy or slow, AMC/client issues, USPAP, Fannie, UAD, etc. You can do it any time, at your convenience. You can spend just a little time or lots of time.

Go to the groups below and see which ones you like and try one or two. The larger the number of members, the greater the number of postings.

I am only listing the ones I subscribe to. Search the services (Yahoo groups, LinkedIn, Facebook) for other groups. For example, searching yahoo groups for the word appraiser resulted in hundreds of groups, many of them very small and with little or no recent activity. Searching by "latest activity" is a good idea.

Each online group is different.

Types of online communication

There are many methods used by appraisers: blogs, web based forums, email discussion groups, podcasts, etc.

Almost all allow comments, except for podcasts (some allow comments on their web sites). On blogs with long posts, you are typically commenting on the blog post itself.

On Facebook, Yahoo Groups, and Appraisersforum.com, members start a topic and other members respond.

Emailed newsletters such as my Thursday weekly free newsletter do not directly allow comments. However, they are posted on my blog where readers can comment. Jonathan Miller's posts are online but do not allow comments and are "one way" communication. However, you can always email him.

I also subscribe to many email non-appraisal discussion groups, where members start topics and others respond.

Who runs the online services?

Now that blogs are inexpensive and easy to use, more and more people post on blogs.

Services are mostly run by individual appraisers, groups of moderators and appraisal vendors.

When blogs and email discussion groups get more and more postings, often a moderator runs a section of the blog.

Appraisersforum is a "traditional" forum that started before blogs and is owned and managed by Wayne McErley.

What types of posts and comments are made?

Posts are typically longer than comments and can be about almost

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any topic.

Comments are typically a response to the original post with a headline, although comments can wander and get off topic.

How many posts are made in a service?

This varies widely. The larger the number of members or subscribers, typically the greater the number of posts.

This paid newsletter, which started in 1992, is "one way". I send you the newsletter and you can contact me. There is no blog for readers to comment. Since it is not free, I don't put it online for everyone to read.

However, my free weekly email, started in 1992, is posted on my blog where you can make comments. I set up my blog about 5 years ago. I used to post them on my web site, started in 1998, but there was no way to post comments.

Podcasts are typically "one way" if you listen to them. However, many podcasts have a web site where you can make comments.

Other services, such as appraisersforum.com have many daily postings.

Some Facebook and email discussion groups have a lot of posts and some have relatively few.

How to keep up with your groups, blogs, etc.?

Methods include:

- Email notification of posts and comments such as email newsletters, blogs, forums, podcasts
- Go regularly to the web site that has the service
- Automatic download podcasts to your phone and/or computer

I started with email discussion groups, before the web was available to the public. I don't like to regularly go to Facebook, blogs, etc. so I have the posts, emails, etc. sent to me by email and filtered to subfolders.

Keeping up on the information overload is difficult. For services you are already using, it is easy to decide. For new services, you can check it out for awhile and then decide.

Sometimes I decide that it is very useful for me so I use email notifications of everything. Other times it is not important and I use a daily email digest, with a list of email subject lines.

Using daily email digests or emails of each post for email services

I get hundreds of emails daily from various services. I have them automatically filtered into folders. Otherwise, my inbox would be totally overloaded. Fortunately, I have lots of storage on my computer, so it does not fill up with them.

For example, there is a very active NextDoor web site in my city. When it started I got an email for every post as there was local news. But, over time it kept getting more and more posts, mostly about stuff for sale. So, I changed my preferences to daily email digests, which worked out much better. I could scan the daily digest for anything I was interested in. When there was news, such as a house fire a block from my house, I heard the fire engines and news helicopters. Info was posted immediately on the local NextDoor web site.

When appraisersform.com started, I signed up for email notifications of every post. But, after awhile, there were way too many, plus too much chit-chat for me. So, I quit getting email notifications. However, I seldom go to the site and am sure I am missing a lot of good discussions.

How to get started, if you have never done online communication

In this article, I give you information on many possible groups. Few, if any, appraisers follow all the groups.

Join one, or a few groups, that seem interesting to you. See if you like it. If not, you can unsubscribe or just stop checking for any postings, and try another group.

If you are already on Facebook, join one, or more, of the appraisal groups, as you are used to the Facebook interface.

Appraisersforum.com is public on the web. You can see what the topics and posts are like. To post anything you must be a member. All the blogs are public.

Blogs

I subscribe to all these blogs and receive email notices of new posts. All allow comments.

Appraisersblogs.com - Very active, somewhat controversial. Started in 2011 by Desiree Mehbod, Virginia Certified Residential, appraising since 1993. She does not take advertising and does all the work on the blog. She also operates a free appraiser directory, http://e-appraisersdirectory.com/

Georgedell.com - Mostly data and statistics. New blog, written for appraisers. George Dell is a long time appraiser, based in San Diego, CA.

https://theappraisercoach.com/blog/ - regular blog posts on business and appraisal topics by Dustin Harris, The Appraiser Coach

Sacramentoappraisalblog.com - by Ryan Lundquist. Purpose is non-lender marketing in Sacramento, CA area, but has posts that are interesting for appraisers.

http://birminghamappraisalblog.com/ - by Tom Horne. Purpose is marketing, but has posts of interest to appraisers

www.millersamuel.com/note/ - Jonathan Miller Housing Notes. Written by Jonathan Miller, SRA, based in New York City, writes about his area (and a few other cities) plus info of interest to appraisers, usually in the Appraiserville section.

Podcasts

I have listened to podcasts below and have been a guest on both. Very well done with good topics. I also subscribe to many business podcasts

(Freakonomics, Marketplace, etc.) and always listen to podcasts on my iphone - in my car or while exercising.

https://theappraisercoach.com/podcast - regular podcasts on business and appraisal topics by Dustin Harris, The Appraiser Coach

http://voiceofappraisal.com by Phil Crawford. Entertaining and controversial focusing on appraisal topics in the news. Phil started as a real estate radio "personality" and is now doing appraisal topics.

How do groups differ?

They are very different. Some of the factors:

- Appraiser experience. The Yahoo and LinkedIn groups attract appraisers who have been appraising for a long time and tend to focus on appraisal issues.
- Flaming, negative postings etc. The larger the group, the more negative postings. Some groups attract people who tend to "attack" other appraisers or make rude comments. All groups have occasional problems with this. If there is a good moderator, it can be handled by kicking the person off the list or deleting their comments. Approving every post is the best way, but requires that someone take the time to do it. This tends to cut way down on postings.
- Number of postings. Varies widely, from a few posts a month to hundreds a day.
- Pre-approval before joining. Some require it and some don't.
- Finding old postings. You can search Facebook groups, but it is not as good as Yahoo, LinkedIn and Appraisersforum.

What about privacy?

The only widely used group that is indexed by Google is www.appraisersforum.com. Be careful what you post there

Most of the appraiser Facebook groups are private or "secret".

The only communication in this country that is (almost) completely private is postal mail. Emails are not private. Internet communications are not private. Phone calls can be monitored by government agencies and are accessible by people with monitoring equipment.

Some of the online services allow the use of "screen names" and others require your "real name". Screen names do allow some privacy, depending on how your real name is kept private. Appraisersforum.com has allowed screen names for many years.

Most of the Facebook groups only allow licensed appraisers or someone referred by a member.

The Primary Rule for any Internet communications - chat boards, email discussion groups, etc. is that you must assume that any of your communications would be published on the front page of the New York Times and indexed by Google.

What about groups for personal interests?

I belong to groups on Facebook for my personal interests, mostly experimental music groups, activities in my small town, and a family facebook page.

Do you have any personal interests you would like to discuss online? It is a very easy way to communicate.

How much time do you want to spend online?

There are so many groups, you can spend hours every day online.

I am online a lot because of this newsletter, plus the free email newsletter. Even without the newsletter I would check the groups I like to see what is happening. If business was slow or I was feeling burned out, I would spend more time.

With many appraisers working solo who don't know other local appraisers to contact, online is a good way to replace the office "water cooler".

When you need a break, spending a half hour or so online can help.

When you need information on a specific issue, search the groups. Yahoo groups are good. Appraisersforum.com has the best searching. Facebook is limited.

Start your own group

If you can't find any groups for Connecticut appraisers, for example, start your own email or Facebook group. Send emails to other appraisers asking them to join.

You can post a message in a larger group to let them know you have started a smaller group. A Florida appraiser recently started a Facebook group for his area.

The key to getting a group started is having someone who will regularly post and respond to postings. If you start a group, hopefully you can do this. See what types of questions or topics are popular in other groups and make up your own for your group.

How to find and evaluate groups

Some forms software vendors have discussion groups.

All the services in this article have good ways to search for groups.

See how many members there are, typical topics, if you know anyone in the groups, and how many postings there are.

If you subscribe to a group and don't like it, quitting is very easy.

Using groups to market online

Primary Marketing Rule: If no one knows who you are and what you do, no one will ever contact you for appraisal assignments.

Posting on these groups would be good marketing for you. You can be seen as a knowledgeable appraiser and may receive some referrals.

You can find out about other appraisers' experience with clients. They are a good way to find out about AMCs. You may have a new client contact you, but this is unlikely for residential appraisers.

Linkedin is sometimes used by appraisers for marketing, particularly for commercial appraisers.

Getting advice online - marketing, help with an appraisal problem, etc.

Every appraiser needs at least one local appraiser to contact for advice. You can use online groups, but posting a question about a local issue is often not useful, unless there is someone who will respond who is in your local area. Of course, you can get advice on general issues such as USPAP, dealing with AMCs, etc.

The "quality" of the advice varies widely. The only one that is somewhat difficult to use is appraisersforum.com because of the large amount of aggressive postings and wide range of knowledge. You have to sort through the postings to figure out which are okay and which ones are not.

All the other groups discussed in the article are small enough that you can figure out which answers are useful.

"Lurkers" and active members

All groups have a relatively small group of regular posters and a large group of people who seldom, if ever, post.

Most members of a group are "lurkers", like me. I have been using online communication with appraisers since I started a weekly live chat group on Compuserve in 1993. I have never posted much, usually because by the time I can think of anything to say, it has already been said.

However, it is better to post something occasionally, or often, so you will be better known and may get some referrals. Plus, it is a lot more fun than being a lurker.

Group interfaces

On all the groups, you can view them online or receive emails. Because some of them are so active, I recommend viewing them online first.

If you have been viewing them online, try getting email notices from your favorite group, but be sure to set up filters and folders in your email.

The Facebook interface is very different than the other groups. Facebook is a social media, not based on postings and threaded comments like the other groups.

The LinkedIn "look" is similar to Facebook, but is for business.

Yahoo groups are email-style and are flexible - view by date, view threads, etc.

Facebook groups

Facebook is different than the other groups as Facebook is social media, focusing on personal connections. The appraiser groups use the same interface.

The appraisal groups require using your "real" appraiser name.

There is a search box on the left side of the group home page.

To get notifications of all group activity, change your settings - upper right of screen.

Facebook allows saving posts and comments. Click on the upper right with … to access the pull down menu.

You can get email notifications of all posts and can see a list of all the members.

The Facebook groups tend to be newer residential appraisers (since licensing) as many older appraisers don't use Facebook. However, there are many "old timers" on the appraiser Facebook groups.

Many comments focus on handling AMC requests, UAD and lender requirements such as Fannie Mae guidelines. Good place to get advice. Moderators try to keep flaming and rudeness down and remove some appraisers.

Joining is by invitation only in most of the groups. Open only to licensed appraisers and the group leaders check each applicant at www.asc.gov. However, there are AMC employees and managers who are licensed appraisers.

Most of the groups started about 5-6 years ago. I have been a member since they started. Some are spinoff groups of other Facebook groups. The most active groups are listed below.

I am a Real Estate Appraiser- The National Appraisal Coalition is the most active group with 5,775 Started about 5-6 years ago.

I Am a Female Appraiser has 1,176.

100% Real Estate Appraisers has 1,191 members.

We are real estate appraisers has 1,424 members.

Mobile Appraisers has 1,274 members.

Appraisersforum.com - the largest group

Appraisersforum is the largest group and is much, much larger than any other group with 73,383 members. Monthly average postings is over 8,000 new posts. Total posts since it started are 2,027,676. AppraisersForum.com was registered in 2000, although the owner, Wayne McKerley, had a small forum under his other domain going from 1998.

Anyone can view the posts, but you must join to post anything. Easy to search and good threading. Many different forums, including state forums.

I have been a member since it first started.

You can get emails with postings. You can subscribe to individual topics.

There are many, many lurkers like me. Like with any group, there are regular posters.

However, because of the large number of members, this is the worst group for flaming, name-calling, etc. If you are a new member, don't post for awhile as newbies tend to get flamed.

Most of the forums are indexed on Google, so be careful of what you post. It is good to post once in a while to let people know who you are as a marketing tool.

Yahoo groups

These are the only online posts I read every day. All of them focus on residential issues, but sometimes have commercial and litigation support topics. Membership has not changed much since my previous article in September 2014.

These have been around for awhile. Not much ranting, etc. You can subscribe to email postings or go directly to the site. www.groups.yahoo.com. Only group members can see your postings.

I have listed the groups I subscribe to. There are many other appraiser groups.

All these groups have experienced, knowledgeable appraisers with little ranting and are a good resource.

- National Appraisers Forum (Formerly Inland CA Appraisers Forum). Started 2/16/06 by Steve Smith who is still active. 751 members. Many of the members are in Southern CA, but often issues relevant to all appraisers are discussed, thus the name change. Name and location are required.
- Total2000usersgroup. Started Aug 7, 1999. 3,593 members. Activity has declined over the past few years.
- Real Estate Appraisers Association. Run by REAA, based in Sacramento, CA. Many local topics, but some very interesting discussions of issues important to all appraisers. You must include your name and city/state, company name or web site URL in your posts. Started Apr 12, 2008. 375 members.

LinkedIn

Appraisal activity on Linkedin has declined over the past few years.

LinkedIn is very different than the other online services discussed in this article. It is primarily used by people looking for jobs and recruiters. However, putting your profile on LinkedIn lets people know about you. When searching someone's name, their LinkedIn profile often comes up high in the search.

There are a lot of "endorsements", invitations to join, etc. as it is a business networking service.

I have only listed the most active appraisal groups.

As you can see, there are a lot of members in some of the groups. Commercial appraisers sometimes participate. Search for appraisal. There are many, many groups. Most of them are relatively small.

Discussion topics vary widely from AMC fees to complex commercial appraisal assignments.

Active groups I subscribe to:

o Appraisal Management - 1,470 members, Started 3/11
- Appraiser Expert Witness Group - 5,097 members, Started 4/11
- Real Estate Appraiser Connection - 11,266 members, Started 6/09
- USPAP, Uniform Standards of Professional Appraisal Practice - 10,553 members, Started 3/09

What about joining, or starting, a local group?

Search online to see if you can find a group in your area. Be sure to check if it is active (how many members and postings).

If you can't find one, start your own local group. A good way to do this is to announce in a larger group that you are starting a local group and see if anyone is interested in joining the spinoff group.

Which groups are the best for you?

Most groups discuss residential lender appraisal issues. Some LinkedIn groups are for commercial appraisers and it has specialized groups for litigation and reviews.

How active is the group? If there are only a few postings per month, you may not want to join.

Groups and services often have a different "tone" depending on the number of members, who manages the group, and who posts most frequently.

Do you want to go the group online or receive emails? All of them have both options. For example, there are so many postings in appraisersforum I only get the messages online and don't get them emailed to me. But, when I participate in a discussion, I often check a box at the bottom of the screen that I want to receive messages from that group.

Be sure to set up email filtering and folders for the active groups if you get emails so your email will not be overwhelmed.

Another option is to set up an email address just for the groups. If you do all your email on your smartphone, you definitely want to do this. For example, a gmail account for all your emailed group postings.

What about non-appraiser services?

I subscribe to many mortgage and business-related services. Plus services for my personal interests such as music and pickleball. Most are filtered to folders so my inbox has way too many messages.

Should you go online to communicate with appraisers?

Most appraisers like finding out what other appraisers are doing, their opinions about Fannie Mae, UAD, AMCs, etc.

Some appraisers worry about spending too much time online. Fortunately, if you don't get postings emailed to you, you decide when to get the messages by going to the web sites.

If you don't like one group, there is always another one!!

Is there a ***ban*** on evidence based valuation©?

By George Dell, MAI, SRA, ASA, CDEI

Editor's note: This is an expanded version of George's recent blog post.

Note: All footnotes are at the end of the article, indicated by (1) in the text.

I saw an article from the Washington Post, December 15, 2017, saying that the administrative/enforcement branch of the U.S. government is *banning* the use of certain words or phrases for the CDC (Center for Disease Control). Two of the 7 phrases include "science-based" and "evidence-based." (*Editor's comment:* According to CDC Director Brenda Fitzgerald, "There are no banned, prohibited or forbidden words at the CDC—period.")

As many of you know, I advocate **Evidence Based Valuation©**. If valuation based on evidence is so much better than that based on "good judgment," why does it not dominate? Well, here's the problem. It dominates as a method - for our main competitor - AVMs.

The key element of evidence-based analysis is how the data is selected. First, the data is objectively selected. Second, the complete competitive data set is applied.

If science-based valuation is so darn good, why is it just now becoming popular? There are many possible explanations:

- Personal resistance to change
- Organizational inertia
- Profession cultural norms
- Client expectations
- Regulatory edicts: license and banking
- USPAP
- Education
- False pride

So when it comes to change, **appraisers start with two strikes**. One, we are of a "conservative" calling, supposed to be analytic, rather than expletive. Two, we are human beings - automatically relying on the 'tried and true' as a steadier and easier way to do things. This is enhanced by the nature of our training. Most of what is useful, we learn from our mentors and bosses - who learned from their mentors and bosses. Then - across peers, a culture of orthodoxy forms. Proposing change brings unease, even fear, when old ways are challenged.

The cultural norms become formalized; in standards, regulations, client demands and become entrenched. Embedded in our literature, education, standards of practice, and government regulation, USPAP emphasizes the "three approaches," requiring them for believability. The norms are subjectively intermeshed and often "inbred" in the data. In **traditional appraisal**, the data selection is "judgment based," with the overall test of acceptability being "credible" or "worthy of **belief**." The process starts on a subjective basis, with the appraiser picking comps, and concludes on a subjective review - a personal judgment on believability. **The focus is on comparing the comps.**

In **Evidence Based Valuation©** the data set is analytically determined. The overall test is reproducibility. Modeling decisions are dramatically reduced, and usually obvious. Data inbreeding is analytically eliminated. The process starts on an objective basis, and concludes with a risk scored, replicable analysis. The appraiser is judged not on judgment, but on the clarity of the work, the reproducible analysis. **The focus is on analyzing the market segment.**

So we have two different ways of valuation. "Trust me" vs. "See my work."

Science is: the systematic study of the structure and behavior of the physical and natural world through observation and experiment.

There is no ban on doing appraisal following a path of systematic study. However, there is much in the way of providing a superior service. A service and product best provided by the valuation profession. But, the profession and its individuals must be given the freedom and encouragement to provide that service. This is the service enabled by the precepts of evidence based valuation©.

Evidence Based Valuation©

EBV© is a systematic study of the structure of a market segment, through observation of transactions, and their features. It requires clear assumptions, factual evidence, clear logic, measured reliability, and reproducible reporting. The core principles are:

- The data selection is objectively delineated.
- The analysis is transparent.
- The result is replicable.

Today's electronic data enables the use of complete data sets. The ideal data set is the complete market segment. The optimal data set provides the best precision and accuracy (sureness and accuracy). More information is always better, until it is not information.

Traditional appraisal practice compares four or five "similar comparables." These are selected by the appraiser, based on experience and good judgment. The traditional appraisal process is **"judgment-based."** *"Trust me. I know a good comp when I see it."*

With the basis for data selection embedded in our appraisal forms, spreadsheets, education, and client expectations/rules, - there is little incentive, and great hindrance for appraisers to do market-data-centered analysis.

We are familiar with the basis for the tradition of "comparable analysis" instead of "data analysis." Historically, data was difficult, and continues to be so in some areas. The best was to try to gather a sample (non-random) of sales, subjectively similar to the subject property. The human brain does very well recognizing patterns in data, up to about 6 or 7. When "three comps and listing" were the best we could manage, this worked in our favor. Now this strength has become a millstone.

But, all is not bleak. USPAP is redeeming here and *requires* the use of "all information necessary for credible assignment results … such comparable sales data as are available…" Note the emphasis on the words all *information* and as are *available*. This means you must analyze the complete data set. The entire competitive market segment. Not just four or five convenient sales.

Unfortunately, we have no criteria for this requirement. No objective standard. The criteria is simply "for credible results." Analytic trueness and sureness are trumped by belief - subjective credibility. Remember, the USPAP definition of *credible* is "worthy of belief."

The Appraisal Institute fills out the definition a bit. The AI *Standards of Valuation Practice* define *credible* as "Worthy of belief; supported by **analysis of relevant information**." (Emphasis added). "Relevant information" can be narrowly defined as the Competitive Market Segment (CMS), so this definition is a step in the right direction toward objective valuation standards.

Recall rule #1 (from the August 2, 2017 blog):

"You can't get objective output from subjective input"

Dissonance

Dissonance is holding two thoughts in conflict with each other. In the world of psychology, many believe this a great source of emotional issues. Part of the brain tells you one thing, while another part of the brain tells you the opposite - at the same time!

What we have is a dissonance of the group culture of appraisal. Our standards say analyze all the information, all the sales data. Yet our education, our groupthink, says four or five comps are just fine. This groupthink has become embedded in our standards, laws, regulations, licensing qualifying education, intermediaries (like AMCs), and client expectations. They also do not know how to handle the new way. They too "grew up" with the paradigm -- "pick your comps, support your opinion".

But, the core inertia comes from our standards and our education.

The Standards

What is "acceptable" today? USPAP says your work is good enough if you: 1) Do what your clients expect; and, 2) Do what your peers do. (1)

The selection of comparables by these criteria is further delineated in the Appraisal Foundation's "Alliance for Valuation Education" publication *Understanding and Using Comparable Transactions*. It **defines** a comparable [p. 11] as "…sufficiently similar that it can be used to measure the value of another property." The course concludes that a valuer "…makes adjustments and allowances, and uses his judgment to apply the resultant figure to the property he is seeking to value."

In the Reconciliation section [p. 98] a new procedure is recommended using the management tool of SWOT analysis. (Strengths, Weaknesses, Opportunities, Threats.) The procedure recommends that the 'S' and "W" be based on the perspective and eyes of the appraiser.

However, the Opportunities and Threats are from the perspective of a client. The criterion being: "more *appealing* to a client" or "some feature of a comparable that would result in the client *feeling* that it should not have been used …" This seems to reiterate that an appraiser should meet the expectations of the client. The main point here is that subjective methods, *feelings and appeal*, take precedence.

Is objective evidence **favored**? It appears not.

Is objective evidence **banned**? Only if the client disapproves.

Is objective evidence a **'violation'** of USPAP? Yes, if your peers go along with 'client approval.'

The Appraisal of Real Estate

This textbook is the source foundation of most appraisal education. It states that the property being appraised should be compared with *similar* properties. A similar property is "comparable." "A good comparable sale is a *competitive* alternative." It continues, "data on …competitive properties, such as information on *comparable* sales." And finally: "comparables should be *similar.*" (2)

This circular explanation of appropriate data goes like this: A **comparable** is **similar**, which is **competitive** which must be able to be compared …

The culture of appraisal

In addition to education, regulatory, standards, and tradition, we also have the phenomena of social pressure. Our peers can cause us to change, or keep us from changing. Just a reality of human tribal survival behavior. Social pressure works to keep out new methods, new technologies, and new ways of critical thinking. Returning to our original question - is there a ban on valuation by scientific evidence?

- By our congressionally authorized "Source of Appraisal Standards and Qualifications"?
- By our "recognized" education and practices?
- By our culture of doing things in "proven" ways?
- By an economic system and clients who complain about appraiser independence, yet enforce/pressure inappropriate appraiser compliance?

Is there a better way?

A Paradigm Shift: The New Valuation Modeling Paradigm (3)

A paradigm shift, as identified by American physicist Thomas Kuhn, is a fundamental change in the basic concepts and experimental practices of a scientific discipline. Kuhn contrasted these shifts, which characterize a scientific revolution, to the activity of normal science, which he described as scientific work done within a prevailing framework (or paradigm).

It appears the American valuation profession, and especially its vocational practitioners, are at serious risk, unless some action is taken to remove the obstructions to data science for valuation based on evidence, rather than personal opinion.

Science Based Valuation© is not banned, but it sure is not encouraged!

About the author

George Dell MAI, SRA, ASA, is a recognized authority on applications of predictive methods to asset valuation and risk/reliability issues. He has authored numerous articles, seminars, and is a co-author of the Appraisal Institute book "Appraisal Valuation Modeling". George is CEO and chief instructor for Valuemetrics, Inc., which provides a curriculum of hands-on workshops for appraisers and lenders.

For more information, go to www.valuemetrics.info and www.georgedell.com. Sign up for his very interesting weekly blog postings at www.georgedell.com/blog

Footnotes

(1) The complete wording in USPAP, Scope of Work Rule, is:
The scope of work is acceptable when it meets or exceeds:

- the expectations of parties who are regularly intended users for similar assignments; and,
- what an appraiser's peers' actions would be in performing the same or a similar assignment.

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(2) The Appraisal of Real Estate, 14th ed. [emphases added]

p. 97 "*competitive* properties, such as information on comparable *sales*"

p. 106 "The *comparable* properties selected for analysis should be *similar*"

p. 121 "The data used for *comparison* in the three approaches should come from properties that are similar to the property being appraised. A good *comparable* sale is a *competitive* alternative - i.e., a property that the buyer of the subject property would also consider."

p. 423 "The *comparable* properties selected for analysis should be *similar t*o the subject property"

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(3) Marvin L. Wolverton, letter to the editor, The Appraisal Journal (Spring 2014): p. 175

Is it jUSt PAP?

By Barry Bates

Editor's note: All footnotes are at the end of the article, indicated by (1) in the text.

*This article first appeared in Ernie Durbin's ill-fated but very popular and well produced LiveValuation magazine on July 15, 2011. A few years prior, my son had finished an appraisal apprenticeship with the craziest fee provider in metropolitan Oakland. He had adopted his Supervisor's attitude about USPAP, namely, that it was "all bulls*t".*

Ironically, my own first supervisor had told me the exact same thing about appraisal theory in general when, wide-eyed and bushy-tailed, I showed up for my first day in the appraisal department of an S&L in San Francisco in 1972. Though not entirely true, it has been serviceable advice.

Discouraged, my son gave up appraing when he graduated college, and now makes a hundred grand a year certifying business processes and products under ISO standards, flying all over the world in business class and staying with the hotel brand he certifies. He is not abused by AMCs and underwriters. He abuses product managers and development engineers.

As any residential appraiser will tell you today, that sounds like a much funner job. Since the article, has USPAP righted itself through bi-annual changes? Do you remember any of the changes made in the 2014 USPAP? There you go.

I think this article needs reprinting, if only to show that the fundamental problem with USPAP (too LITTLE procedural requirements, not too MANY) will be joining the causes of the next housing or commercial property bubble. The smart money in San Francisco, based on a hedge fund panel of smart guys and gals that I attended, is a short "correction" in 2018 and a major, more painful one in 2020.

As we open 2018-2019 USPAP with fear and trepidation, the war between the Appraisal Institute and The Appraisal Foundation over enforcement and licensing seems to have abated somewhat, but probably just because the "waiver" issue has taken center stage.

I stand amazed that I haven't had a single comment regarding my series of rants about the looming extinction of residential appraising.

I accept the probability that nobody reads my Hope springs eternal in the human breast, and appraisers are, after all, nearly human.

To some extent, cynics like me are keeping a low profile; nobody wants to be the one to file a qui tam lawsuit against the ASC for subjecting government to future bailouts caused by values inflated by desktops and a monster GSE AI AVM.

Adolescent MAIs had been putting forth the argument that they are so smart and handsome that they should be able to use any appraisal standards, even the UzbekiStandards of 1917.

They accuse USPAP of being "too procedural", suggesting that the RICS Red Book or the International Valuation Standards will better handle cross-border valuations. What they really mean is that their members should have to comply only with the Institute's standards.

They apparently figure that we won't notice any changes that they make to those standards once they get what they want. I assume that the AI standards remain silent on accepting contingent fees. You can drive a truck through that one.

In my 42 years of appraisal and appraisal management, I've heard my fellow commercial appraisers claim that they don't need regulation (or enforcement), that they can police themselves with their own standards.

The Institute's record of enforcement is not a supportive argument. Nor is the revocation of a highly designated appraiser's license for the undervaluation of a government taking by $138,000,000 (on behalf of the property owners).

Not long ago, I actually heard an MAI argue that residential appraisers should be licensed, but not commercial ones. By the same logic, neurosurgeons, who are a lot smarter than commercial appraisers, should not be regulated, but primary care physicians should be. I mean, how condescending is that?

The Appraisal Foundation has had to climb down into the ditch and fight this out with the Institute. What probably set the Institute off was the formation of the Appraisal Practices Board, which promises to offer appraisal procedures which USPAP is woefully lacking.

USPAP: "When a sales comparison approach is necessary for credible assignment results, an appraiser must analyze such comparable sales data as are available to indicate a value conclusion." Really, AI, you find that requirement too procedural in *nature? That the only characteristic required of a comparable sale is that it be available?*

When I wrote the article below, I was disappointed that USPAP didn't clearly specify valuation procedures. It still doesn't, because you can't keep an institutional policy and procedure manual in constant flux if you rely on timeless and true practices. That will not pay the martini bill at the TAF meeting dinners.

Appraisal is not rocket science, but it's been around for about 300 years and it worked pretty well when the principles were kept simple and the consequences for ignoring them were disastrous. It would also have been nice if individual lending institutions still had to hold their own loans into perpetuity.

The "just pap"(1) my son was referring to 15 years ago is more unpopularly known as the Uniform Standards of Professional Appraisal Practice, which came into being after the last big residential mortgage greeding frenzy (the failure of S&Ls in a 17%-mortgage-rate environment during the late 1980s). So, here's the article as revised in 2015; I still don't see much in the way of substantive change.

Before your friendly author proceeds violently to eviscerate this not-even-very-well-meaning document, let's get a minor but nonetheless irritating question off the table. I think it was my original article that got some action in the days when you had to pay $60 for a copy of USPAP when, as a matter of public law, it should have been free to read. The solution? TAF put it out on the web where it's free to read (uspap.org), but you can't download it or search it effectively. So you still have to pony up the bucks.

My central thesis today, children, is still that a bunch of crusty old MAIs and soulless bank appraisers (2) saw an opportunity in 1986 to create a bureaucracy that funds free trips to meetings where crusty old MAIs and soulless bank appraisers can assemble to get pleasantly drunk. This entity became The Appraisal Foundation, an organization designed to foster high appraisal standards that are written in weasel words even Donald Trump could circumvent.

It's hard to know where to start; there are so many things wrong with USPAP. As an overview, suffice it to say that its structure appears to be designed so that over the long haul, most responsibility for bad loans can be offloaded to appraisers making less than $100K per year (3).

A few of the more obvious false assumptions in USPAP:

- **Certain Standards are paired because appraisers develop their opinions before reporting them.**

Wrongamundo, Buckwheat. Most appraisals are written simultaneously with the opinion-forming process. Separating the two in a set of rules simply allows obfuscation of essential criteria and avoidance of the steps necessary to achieve a semblance of objectivity-and credibility.

- **The appraisal client is always the intended user.** A lovely concept out in the ether somewhere, but hardly ever the case in practice. The client (who engages the appraiser) is a lending technician or AMC drone; the intended user is an underwriter, servicer or portfolio manager. (This assumes the fact that only about 10% of appraisals are ever done for anybody other than a mortgage company.) Pretending that they're the same person (based on the legal concept of a corporation as a person, which facilitates all kinds of evil) allows the left hand, which is handing out cash, to avoid confronting the fact that the right hand is removing money from the borrower's savings account.

- **The Competency Rule says: "In an assignment where geographic competency is necessary, an appraiser who is not familiar with the relevant market characteristics must acquire an understanding necessary to produce credible assignment results for the specific property type and market involved."**

This turf battle is the biggest single boondoggle in the appraisal profession today. Geographic competency was a critical component 30 years ago. I routinely challenge appraisers who drape themselves in "geographic competency" to list-in 30 seconds-"nuances" and supply/demand factors in their local markets that I could not find out online in a half hour for free or for only a few bucks. I haven't found one appraiser who could do it without spitting pablum all over himself.

(On the flip side, though, inner cities remain a bastion of secret market influences. In Philadelphia, where I had to live for two years as part of a plea-bargaining agreement, it's still true that the townhouse on the south side of the street may be worth $30,000 while the one opposite (same plan and lot) can pull down $180,000.)

But, about 80% of real property transactions and business occur in conforming areas these days. I no longer have to sit next to the cracker barrel with Clem to find out that the old Clampett place just sold to a chicken farmer from Porterville.

Who do we think we're kidding? If we don't give up our 50-year-old habit of assuming the ostrich position to face every threat, our profession will not survive (4).

Finally, the old TAF argument in support of USPAP that its lack of specificity is only the result of trying to avoid "micro-management" of the appraisal process is just what we former Army wiretappers used to call "cover noise". It screens from hearing the fact that as it stands, USPAP can be used either to exonerate or execute an appraiser on political motives regardless of the issue at hand. That's why more procedural detail is needed, not less.

Appraiser Judy fails the geocompetence test when she gets a citation from her state for not having a subscription to local MLS. Yet when appraiser Willie walks when he fails to check online sources or MLS after the property owner assures him the property is not publicly listed for sale.

This same thread of delusion seems to run throughout USPAP, undoubtedly promulgated by crusty old MAIs. If any carbon-based life form tells you something, it's okay to believe it's true without any further investigation. Just throw in an extraordinary assumption, even though it's invalid because it's impossible or unreasonable.

Another reason for more specificity is the utter failure of the HVCC / Dodd-Frank AMC experiment. Instead of being coerced by a mortgage broker, today's appraiser is systematically coerced by onerous documentation requirements, intimidating email, multiple requests for reconsideration and arbitrary blacklisting. Appraisal quality is depressed by AMC expropriation of what was once 50% of a normal appraisal fee. Moreover, residential fees in general haven't changed for 20 years.

Residential appraisers are being singled out for extra punishment these days because:

1. They're vulnerable. They work in a kind of vacuum that keeps them barefoot and pregnant. And naïve.
2. I'll say it again: they're vulnerable. Their comparative isolation and state of overwork prevents them from keeping adequate tabs on organizations that are supposed to be acting in their best interest (5).
3. On the front lines (definitely not in the general's tent), the profession attracts rebels, renegades, weirdos and geeks (I stand with my comrades), who tend to simply ignore rules anyway.
4. Their isolation prevents them from banding together and acting from the grass roots. With a little seed capital, a class action suit by residential appraisers against AMCs and client on the basis of deprivation of livelihood might have a chance in fixing the situation. It doesn't help matters that the honest appraiser thinks s/he's a brain surgeon working for $350 per operation, the dishonest one makes a lot of money during a short career "in the normal course of business" (6).

Far be it from your curmudgeonly author to rant about USPAP without offering an alternative set of rules.

Here they are, The Twelve Appraisal Commandments:

1. Thou shalt use only comps that are the most recent, proximate and similar from a reliable, customary and verifiable data source.
2. Though shalt not make unsupported adjustments.
3. Thou shalt use no comp situated across a God- or man-made neighborhood boundary, especially rivers and multi-lane highways.
4. Thou shalt not estimate costs without referring to the cost data source (book, page or URL) and including a copy of the analysis in the report. Likewise, thou shalt not estimate land value in a cost approach context without supplying supportive valuation data in a separate sales comparison, allocation or residual analysis (7).
5. Thou shalt always comp an over- or under-improvement within the neighborhood in which it is located.
6. Thou shalt apply, when applicable, capitalization rates supported by verified comparable sales or recognized formulae, showing all calculations in detail. Likewise, thou shalt not estimate rent or rent multipliers without citation of verifiable data source.
7. Thou shalt not identify your appraisal premise as "leased fee estate" if, by the time I read the report to the end, the income approach used market rents.
8. Thou shalt comp to the subject property's STATED buyer profile and its highest and best use as constructed or proposed (i.e., thou shalt not refer to a 9-paddock horse boarding operation as an "equestrian home" or a 7-acre mini-vineyard as a "hobby farm". When an appraiser encounters any onsite component that may-or may not--contribute significantly to market value, the component value must be quantified and disclosed. I'm just sayin').
9. Thou shalt disclose and describe ALL subject property physical, functional and economic defects in the body of the report and not merely in addenda, certifications, limiting conditions or photographs.
10. Thou shalt try not to form an opinion of value based on a preconceived notion or on anticipated future personal benefits.
11. Thou shalt not write disclaimers under "limiting conditions" or "general assumptions" that are in reality extraordinary assumptions or hypothetical conditions.
12. You cannot disclaim responsibility for any work that an intended user would expect to be included in normal scope of work (zoning, EPA status, permits, etc.) or in identifying highest and best use.

Could there be more than Twelve Appraisal Commandments? Additional tablets could be inscribed to expand them to 25, but more than that would probably be unnecessary. The reader undoubtedly has a few to contribute. The toughest commandment to follow is #10.

As a digressive anecdote, the writer has personally known only one billionaire in his entire career. Mr. Billionaire, a hard-money commercial mortgage guy with two Ph.D.s and a propensity for experimentation with hallucinogens, asked the writer at a cocktail party in 1984 (no play on years intended), "Do you think an appraiser can provide an unbiased opinion of value?"

Your humble servant had to think about that for several seconds. "No", offered the servant. YOU think about it. If an appraiser could-and did--render an unbiased opinion in every case, s/he wouldn't be very busy. "I'm sorry, Johnny, you can't have a new pair of shoes this month, because Mommy is an honest woman."

If we were really honest, we'd admit to being fallible and malleable human beings who need hard, understandable commandments (regulation and enforcement) to keep us on the straight and narrow. It may seem old-fashioned, but perhaps a little confession, penitence and absolution are in order today in place of bombast and bluster.

In the end, our goal shouldn't be to provide an unbiased opinion, since the very phrase is an oxymoron. If it's not biased, it's not an opinion. The goal is to know where to draw the lines at the top and bottom of a demonstrably reasonable range. If the commandments above were followed, setting those demarcations still would be very far from easy, but they'd be a lot less subjective-and dangerous.

When a "point value" is really necessary, the appraiser's client should be given the tools in the appraisal report to make that decision herself. At the point where an appraisal turns into an estimate of maximum loan amount, the issue is one of risk management, not the "art" of appraisal.

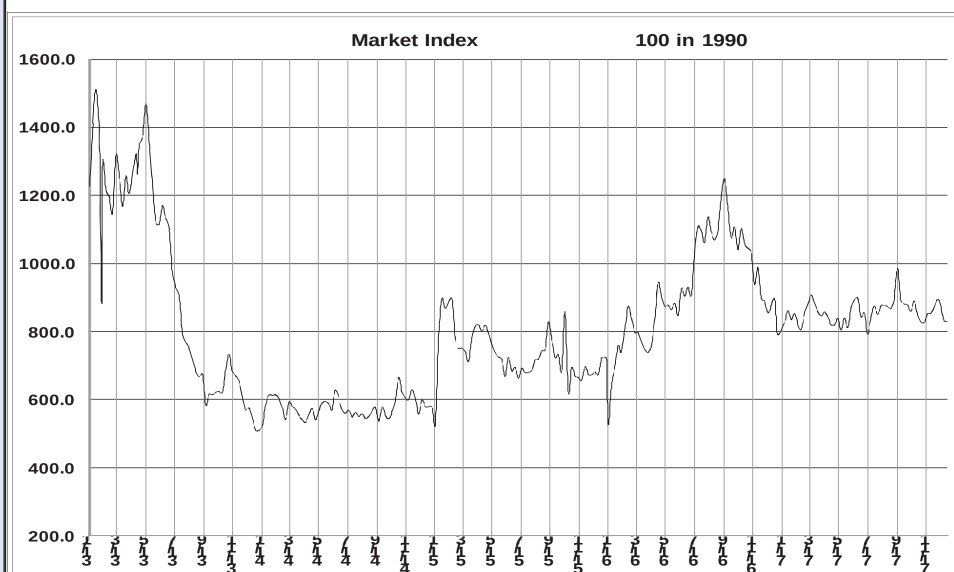
We cranky, rebellious, nerdy appraisers are tired of doing everybody else's job. So there.

FOOTNOTES

1. Pap, n., soft food for infants or invalids, as bread soaked in water or milk.
2. In the interest of full disclosure, the author is a soulless bank appraiser who only narrowly missed getting his MAI. The sale of his pre-owned soul to Satan and His Minions was recorded in Book 245, Page 21, Official Records of San Francisco County, California on October 15, 1972. The soul has been resold several times since then, but the identity of successive assignees is not clear because the deed was deposited with MERS.
3. It's no coincidence that the quantity of lawsuits against appraisers is rising (per Liability Insurance Administrators) although the 2008 collapse of the housing market is certainly a major contributory factor. If you think your E&O premium is too high now, wait another year or two. Rather than spend more money on risk management to avoid another economic debacle, servicers are heaping more tasks, responsibilities and requirements on reconciliation appraisers with no change in compensation to address the additional liability. Congress is helping them out; Gramm-Leach-Bliley declared that an appraiser is a "financial institution" because s/he provides a financial service. The updated Interagency Appraisal and Evaluation Guidelines now state that appraisers, unlike agents and brokers, can't get away with an estimate of price instead of value in order to decrease liability in valuation for liquidation; they offer very vague reasoning for closing this gate before the cow comes home
4. Check out the 2013 Oxford Martin study of 770 U.S jobs that estimated that (residential) real estate appraisal has a 90% probability of complete computerization by 2023 (appendix, job #541: http://www.oxfordmartin.ox.ac.uk/downloads/academic/The_Future_of_Employment.pdf.

Here's how I see it: in 10 years or less, most appraisal work will be done on the desktop as piecework, and an appraiser in Michigan will

MBA Loan Volume Application Index – 1/13 to 12/17



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Ann O'Rourke, MAI, SRA, MBA
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info@appraisaltoday.com (24 x 7)

Editorial and Subscription Offices
2033 Clement Ave., Suite 105
Alameda, CA 94501
Phone: 1-800-839-0227
Fax: 1–800–839–0014
Email: info@appraisaltoday.com
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be looking at property in Florida. Drones, GSE AVMs and satellite photography will take care of the rest. Although the current regulatory market is still buying the geocompetence argument, it will last only until the next big lawsuit where someone tries to collect on the basis of the appraiser living in Clampettown vs. Porterville.

5. Historically, the appraisal organizations have supported the best interest of financial institutions (or crusty old MAIs and soulless bank appraisers), rarely the consumer, definitely not appraisers in the trenches.

Of course, now that appraisers are legally financial institutions under GLB, maybe they'll get some loving attention. (Not.)

6. Sometimes it's hard to tell the dishonest from the simply stupid. Any appraiser who knowingly participates in mortgage fraud for a lousy $350 has an IQ somewhere around room temperature.

7. Why has the mortgage industry shoved the Cost Approach under the rug? Because if an accurate cost approach had been required in every residential appraisal, it would have become inconveniently apparent in 2005 that there was a huge unexplained gap between cost, land value, contractor O&P and reasonable developer profit on the one hand and the proposed sale price on the other. Well, duh...

About the author

At 71, Barry has had wide-ranging experience and a technological perspective in a fast-paced career that serves as a testament to the fact that he has never been able to hold down a steady job.

He is now "retired" and lives in Pittsburgh, Pennsylvania with his wife, Kathleen and their two dogs.

He writes for real estate publications and, in his own words, tries to get into more trouble.

In 2008, he filed whistleblower suits against MERS (on behalf of county recorders) in 12 states, all of which failed miserably.

Barry Bates wants to hear from you! Send your comments and criticisms by email. He can be reached at barrettbates@gmail.com.

How the new tax law affects appraisal businesses - pass-through deductions and estate taxes

Note: This article does not cover issues of deductions for appraisal businesses with employees, S-Corporations, etc. Check with your tax advisor.

I assumed that appraisers will be able to take the pass-though deduction. I will let you know ASAP if this changes.

Estate tax increases

There is little or no anticipated effect on appraisals because of the doubling of the estate tax exemption.

Fortunately, for appraisers, the estate tax was retained.

The new estate tax limit is $11 million for one person and $22 million for a married couple.

Almost all of my appraisals are for an increase in basis when the first spouse passes. No tax is due because of the marital exemption. Appraisals are also needed when the second spouse passes and estate taxes are due. I also do them when beneficiaries are trying to divide up the properties.

I have done large estates, well over the old limit on paying estate taxes. They need to know the values of their properties to file their estate tax return. The larger the estate, the more likely they will use qualified and experienced licensed appraisers.

Tax change effective dates

- 1/1/18 - 2018 tax year begins.
- 4/15/19 - Tax return due for 2018 based on 2018 income

What are pass-through businesses?

Sole proprietorships, partnerships, LLCs and S Corporations are pass-through for federal income tax purposes.

This means those entities are not subject to income tax. Rather, the owners are directly taxed individually on the income, taking into account their share of the profits and losses.

Most appraisal businesses are pass-throughs.

How many pass-throughs are there?

More than 95 percent of business tax filings are pass-throughs. Most are small businesses.

Nearly 40 million taxpayers claimed pass-through income on their individual tax returns for 2014. 17 million were small businesses, defined as having total income and total deductions of less than $10 million each.

Of the pass-through businesses that are considered small, most are self-employed individuals with no employees. More than three quarters were categorized as non-employers in the Treasury analysis because they claimed less than $10,000 in deductions for labor. Only 4 million of the 41 total businesses are considered employers.

What is qualified business?

Part of the new tax law, Sec 199A Qualified Business Income tax cut gives the owners of pass-through businesses like sole proprietors, partnerships, S corporations and then real estate investors a deduction equal to 20% of qualified business income.

Certain trades and professions are excluded from the definition of qualified business regarding the 20% income deduction.

"For purposes of section 448, Treasury regulations provide that the performance of services in the field of… actuarial science, performing arts, consulting, athletics, financial services, brokerage services, including investing and investment management, trading, or dealing in securities, partnership interests, or commodities, and *any trade or business where the principal asset of such trade or business is the reputation or skill of one or more of its employees.*"

Architects and engineers were removed from the list above. I guess they have good lobbyists.

As the bolded part of the definition shows, appraisal businesses are not qualified businesses.

Real estate agents are not qualified businesses either. Most of them are independent contractors.

Per a recent email to its members: "NAR was able to help secure a major exception (the personal service income exception) in the final bill that will make it possible for many real estate professionals to be able to take advantage of the deduction."

The threshold amount is $157,500 (twice that amount or $315,000 in the case of a joint return), indexed.

Fortunately, this is taxable, not gross, income. I suspect that most appraisers will be under this income limit.

Per a comment in a previous version of the bill, "The reduced threshold amount will serve to deter high-income taxpayers from attempting to convert wages or other compensation for personal services to income eligible for the 20-percent deduction under the provision."

Should you change to a C-Corporation?

C-Corporations get a 21% tax rate. I did not research the treatment of C-Corp appraisal businesses regarding this new tax deduction. Check with your tax advisor.

The corporate tax rate is permanent. The pass-through business tax deduction expires in 10 years.

Currently, some appraisers are C-Corp, but most are not. Why? Corporation does not protect against appraiser liability. They are relativly-expensive and can be a a hassle. Also, it is double taxation. Friends I have with very small businesses that were set up as C-Corp have difficulty keeping up with all the reporting requirements.

But, it may be worthwhile now.

Unintended consequence: almost everyone, including employee appraisers, wants to be an independent contractor, self employed and get the 20% tax deduction.

If you have employee appraisers, there may be pressure from them to be re-classified as an IC.

For you, it means your relationship with them must change to avoid failing an IRS audit. Appraisal businesses have been targeted in the past by the IRS for misclassification of appraisers as ICs instead of employees.

I have written about this many times in the past. However, if IC appraisers can get the tax deduction, there will be more pressure to get IC status.

Warning: there will be changes/corrections in a clean-up bill in 2018

The tax bill is effective January 1, 2018. However, there will be changes later. The bill moved very swiftly and there was not enough time to correct or clarify the many changes.

I assumed that that the information regarding real estate professional pass-throughs provided by The National Association of Realtors© will not change. NAR has a very powerful lobby.

The Association of Real Estate License Law Officials (ARELLO) estimates that there are about 2 million active real estate licensees in the United States.

There were 1,236,544 menbers NAR of April 2017. That is a lot of members.

Most real estate agents are independent contractors, not employees. For example, in California, they were exempted from being classed as ICs many years ago. Under the new law, they would not qualify for the pass-throughs without the change to the law.

Where to get more information

The National Association of Realtors© has a web page with very good explanations on the effects of the new tax law, including details on how it affects real estate agents' pass-through deductions.

Copy and paste this link: https://www.nar.realtor/taxes/tax-reform/the-tax-cuts-and-jobs-act-what-it-means-for-homeowners-and-real-estate-professionals

Click on "Major Provisions Affecting Real Estate Professionals" and "Appendix 1 – Examples of How the Deduction for Qualified Business Income May Affect Various Real Estate Professionals".

I was unable to find online the final tax bill signed by the president by my deadline of December 29.

. There are many previous, very similar, versions online. Be sure you have the final version, signed by the president.

Google Tax Cuts and Jobs Act. The bill was signed by the President December 22. I assume that is the date on the final Act. I was only able to find a small part of the beginning of the around 1,000 page document.

When you obtain the law with all amendments, the best way to find the appraisal business related information is to search the new bill for "actuarial science", one of the non-qualified businesses.

Previous versions of the full bill included this information. The dollar amount of the business income limit was changed during a "conference" close to the time the president signed the bill, per a previous version of the bill. I assume the final bill has this information.

What does this mean for you?

A 20% tax deduction from 2018 to 2025!. Hopefully, it will be extended when it ends.

Figuring out exactly what will happen with this very large bill will take time.

We are all waiting for the corrections, changes, etc. ASAP. There are many decisions to be made by tax payers that will affect their 2018 taxes. No two people are the same, tax-wise.

I have already contacted my tax advisor about pre-paying property taxes. He did not take much time off during the holidays. He will be very busy for quite a while.