

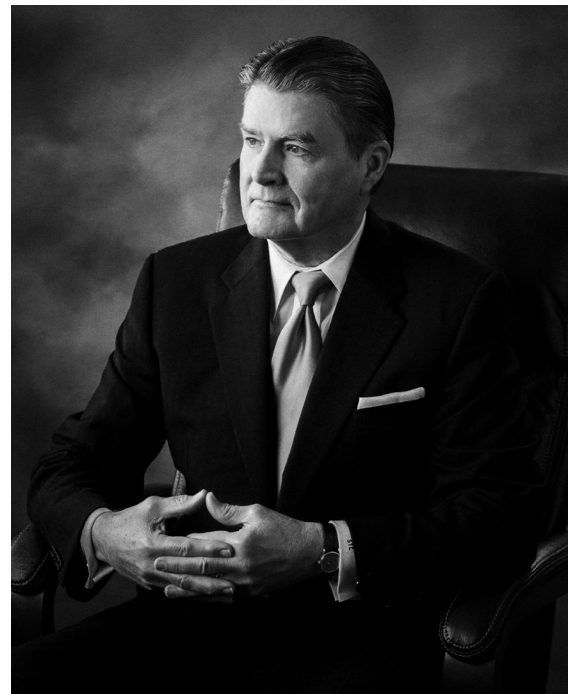
# Special Considerations in Assignments

Dear Readers:

Welcome to the latest edition of *The Appraisal Journal*. This issue addresses special aspects in valuation assignments that may affect the appraisal methodology.

In this issue's peer-reviewed section, you will find the cover article, "Valuation of the Leased Fee and Leasehold Interests of Senior Housing and Health Care Enterprises," an excerpt from the Appraisal Institute's new text *The Appraisal of Senior Housing, Nursing Home, and Hospital Properties*. Appraisal assignments for senior housing, nursing home, and hospital properties often present challenges around allocating the market value of the going concern between real estate and personal property, and leased fee and leasehold interests. Further complicating these assignments is the often-fragmented ownership of senior housing and health care enterprises. This article discusses valuation of leasehold interests and the appropriate application of capitalization rates.

The second peer-reviewed article, "The Problem of Ground Leases," discusses recent dramatic increases in ground rent reappraisals of office buildings in New York City that have caused leasehold mortgage lenders to avoid financing ground leases with any sort of reappraisal provisions. The issue often turns on whether the land underlying the project is to be valued at its highest and best use as if vacant and unencumbered, or as presently



**Stephen T. Crosson, MAI, SRA, is stepping down after serving for nearly twenty years as *The Appraisal Journal's* editor-in-chief.**

improved and used, an issue with a long history in rent reset reappraisal proceedings. Proposed tactics to address such situations include inflation indexing and rent resets utilizing use valuation to satisfy financing concerns in new ground leases.

The next article, “Regression Promises and Aggregation Bias Illusions: The Application of Market Delineation to Land Valuation Models,” examines potential statistical bias in regression models. Regression is one of the best tools for consistently deriving market-based adjustments in the appraisal of real estate; however, the potential for misleading results must be recognized. There is a pervasive misunderstanding that a large data sample will homogenize and minimize the negative impact of inappropriate or incorrect data points (comparables). This article shows how aggregation bias may creep into a regression model, and how professional appraisers are equipped to avoid it with the tools of market delineation and segmentation. Only after a data set has been delineated and segmented in accordance with the market can issues related to modeling be effectively addressed.

Finally, rounding out this issue is “The Appraisal of an Appraisal Company.” At some point, many real estate appraisers may consider selling their firm, buying another, or bringing in or buying out partners. At these moments, appraisers will want an appraisal of their appraisal company. The appraisal of an appraisal company is a business valuation exercise that differs from real property appraisal in important ways. This article examines the appraisal of appraisal companies from the perspective of business valuation, explains

the methodologies and procedures that represent best business practices, and discusses a range of valuation inputs.

On a personal note, this is my final issue as editor-in-chief as I have decided to step aside from that role with *The Appraisal Journal*. It has been a great honor to serve as the *Journal’s* Editorial Board chair and editor-in-chief since 2005. Throughout this period, the Board and the Review Panels have worked to improve the publication in many ways. I believe we have succeeded. I humbly thank all who have participated in this work, with an especially warm thanks to Managing Editor Nancy Bannon. She deserves the appreciation of *The Appraisal Journal’s* team as well as the valuation profession as a whole for her diligence and wise leadership.

*The Appraisal Journal* welcomes the contributions of its authors, and we encourage you to consider becoming a contributor as well.

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