

Party has got to end for real

estate racketeers

ANYONE can set up shop as a real estate appraiser, and the United States abounds with trade organisations that provide membership without a close scrutiny of professional or academic qualifications.

Membership provides the appraiser with letters after his name, and members of the public have few means of knowing whether those initials are worthless.

So far, 14 States have passed legislation which addresses the need to certify appraisers. Another 15 States have bills pending in their legislatures, but are awaiting the outcome of deliberations of HR 3675, the Real Estate Appraisal Reform Act of 1987.

Washington insiders expect the sponsor of the reform, Mr Doug Barnard, to withdraw it in favour of State-level action. One man who was cynical about the prospects of action if that happened was Prof. James Graaskamp, Chairman of the Department of Real Estate and

• *WALL STREET'S insider deals enriched crooks like Ivan Boesky, right. But their fortunes were small beer compared with the money milked from real estate, according to one authority. IAN BARRON reports from Washington*



Urban Land Economics at the University of Wisconsin.

Speaking last February in support of Federal action, he declared: "Some professional real estate associations control State legislative committees and generally have great influence in the Office of the Governor of each State, so that if they are unable to frustrate HR 3675 by crippling amendments or outright defeat, they will dilute and delay State legislation necessary to put permanent certification

and enforcement into operation at the State level.

"If it were possible to retrace the source and application of all mortgage funds that have gone awry, that brokerage commissions, lender fees, developer profits and leasing commissions, and other profit centres would represent the \$25-50 bn that will be funded eventually by the Federal Government agency insuring the lending institution.

"No wonder so many sectors of the real estate agency fear rigorous appraisals and objective market studies as a test of any transaction.

"The sanctimonious defenders of American tradition argue that lawyers, doctors and accountants are not regulated by the Federal Government, but then those who are hurt by the negligence of lawyers, doctors and accountants can sue for damages, sue to withdraw their licences, and collect from insurance resources that do not include billions of federal dollars.

"Who does the depositor or the out-of-work employee of a bankrupt financial institution sue for damages done by an appraiser?"

PACIFIC SAGAS

The following books on land tenure in the South Pacific have been published recently:

R.G. Crocombe (ed.) *Land Tenure in the Pacific*, University of the South Pacific, 1967 (a third completely revised and updated edition), 420 pages.

R.G. Crocombe (ed.) *Land Tenure in the Atolls*, University of the South Pacific, 1987, 246 pages.

Leonard Mason & Pat Hereniko, 1987. *In Search of a Home* (squatters and resettled communities in the Pacific Islands), University of the South Pacific, 260 pages.

Howard Van Trease 1987. *The Politics of Land in Vanuatu*, University of the South Pacific, 313 pages.

All are available from Institute of Pacific Studies, University of the South Pacific, Box 1168, SUVA, FIJI Is.

HE CALLS it the Macro-cube Desktop Computer. In his advertisements, he describes the computer as "Simple to operate", which has got to be true: it's a set of dice!

McCloud B. Hodges Jr. just could not resist the spoof on his fellow appraisers. He adopted computerised after-tax flow valuations of real estate back in 1969, but many other appraisers stuck with old-fashioned methods.

"By hocus pocus they take the capitalisation rates of five comparable buildings - calculated by dividing net income by the sales price - and decide that the property they are appraising is worth a certain capitalisation rate. I say their judgements are worth no more than throwing the dice."

To prove his point, he ordered 1,000 sets of dice with numbers on them that would produce a range of capitalisation rates. He marketed them under the guise of Pfeffernuesse Philanthropies, and appraisers were invited to send \$9.95 to a Post Office box in his home town of McLean, Virginia.

"Just toss your OAR DICE. You can find 36 different OARs: .0904 to .1487, a magnificent range! Your clients/taxpayers/politicians will be amazed. Some will be pleased," trumpeted the advertisement. He sold 600 sets!

The spoof is intended to highlight one of Mr Hodges'

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O.A.R. Dice
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ACTUAL SIZE.
SIMPLE TO
OPERATE

• Part of the advertising spiel that led to 600 sales

serious aims in life: he wants appraisers to be regulated by law. Fewer professional organisations, he says, would make it possible to raise standards and effectively discipline the crooked appraisers who bend the numbers to suit their clients.

He recalls that, when the Virginia State legislature considered a Bill that would license appraisers, "25 to 30 people - brokers, realtors, appraisers - were waiting to get in to speak against the Bill.

"Brokers don't have to have any professional training in valuation before they start working as appraisers. You can learn valuation out of a book."

Mr Hodges is now waiting to hear the outcome of Congressional attempts at intro-

ducing Federal regulations. If these are withdrawn in favour of State legislative action, he will throw his weight behind attempts to pass a Bill to regulate appraisers in Virginia.

For then it would be possible to raise standards, says Mr Hodges. His computerised approach to calculating property values "leaves less scope for corruption. It makes it much more difficult to cheat, because the client, the user of the appraisal report, can look at each input and say 'This is wrong'."

Meanwhile, any building appraiser who wants to save himself a lot of mental effort should send \$9.95 to Pfeffernuesse Philanthropies. He will receive a Macro-cube Desktop Computer, which certainly takes the pain out of appraisals!

How often does an appraisal organisation successfully remove the designation of its own member? Who but the Federal Government provides significant insurance for the damages of malpractice by the loan officer and his implicit conspiracy with the borrower and the appraiser?

The conventional wisdom is that economic progress requires risk taking. The real estate

industry lenders want Congress to take all the risks. At the moment the Federal Government lacks the laws and administrative powers to punish even the most fraudulent judgments by loan officers, appraisers and borrowers.

"Another conventional wisdom of American business culture is that those who pay the piper get to call the tune. In real estate mortgage lending, con-

gress and the taxpayers are expected to pay the piper. Therefore, the taxpayer has every right to require real estate appraisal reform by HR 3675.

"The citizen has every right to impose banking rules which promote efficient allocation of scarce capital, which provide safety incentives for savers, and which prevent insider profits more blatant than those in the stock market."