

ASSESSING THE FACTS

SUMMER 2009

MAKE'EM FIND THE WOW

Eye on the Economy

Prime rate: 3.25%

30-Year fixed FHA mortgage:
5.00% ▼

10-year Treasuries: 3.12 %.

1-Year CD : 1.89% ▼

Ill. Unemployment rate:
10.5% June 09 ▲

U.S. Leading Economic Indi-
cators June 09 +0.7% ▲

Consumer Confidence Index
July 09 46.6 ▼

Midwest CPI: +1.1% June
09

Real Estate

Housing starts: + 3.6% vs. last
month / -46% vs. June 08

Existing Home Sales (Midwest):
+ 0.9% vs. last month / -1.8%
vs. June 08

New Home Sales: +11.0% vs.
last month/ -21% vs. June 08

Building Permits: +8.7% vs. last
month / -52% vs. June 08

Note: The source for this article was, "Getting to 'Wow', Shoppers Describe What Makes a Great Shopping Experience," *Knowledge at Wharton*, an Internet newsletter, July 8, 2009.

As I read this article describing the factors that consumers need to experience in order to classify their shopping experience as a memorable or "wow" experience, I thought that just about every element discussed applied directly to government offices as well. So I thought, let's take this article and adapt it to the taxpayer's visit to an assessment office and see if we can actually develop a scheme to improve the taxpayer's experience and at the same time, enhance their image of our offices and of government offices in general.

Why is this important in the first place? I shouldn't have to answer that because we all develop images of what our experience is going to be like when we know we have to go to a government office. We think of dealing with people who are just putting in time and don't really care; we have all gotten 'the look' when we ask a question the employee has had to answer a thousand times before and can they speak any faster slurring words while inserting the word 'like' a dozen times; we are afraid of being pushed off to another bureaucrat, who knows even less than the previous one, and having to explain just what we are doing there in the first place, yet again, and so on and so on.

Traditional retail market research has isolated five major areas that contribute to creating an extraordinary shopping experience for consumers, each of which translates well to enhancing or improving the government office and service as well. So, here are the big 5 E's.

Engagement - Greet people entering your office immediately, and I mean immediately. How often have you seen people come in to an office and aimlessly look around not knowing where they need to go? Or, they stand at your counter and no one acknowledges that they are there. They are too busy to bother. This experience already is shaping their attitudes about what is happening to them and could affect how they interact with you or your staff. Acknowledge them, find out what they are looking for and if it turns out they are in the wrong office, don't just point them to where they need to go, actually take them to the place and introduce them to the exact person they need to see. Even better, bring the right person to them. This demonstrates a caring attitude and that you are truly interested in helping. Most of all, listen. This column has discussed the importance of listening before. Yes, you have heard it all before, but people need to get it out, to vent. It makes them feel better and by genuinely paying attention to them, you are demonstrating that you care. You are engaging them in a positive manner.

Excellence - The second most important aspect of a 'wow' experience is

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interacting with people who are knowledgeable about the subject at hand, patient in their explanations and willing to provide advice on how to proceed. One of the most frustrating interactions consumers and taxpayers can have is having to initially deal with someone who doesn't know the system. Too often, staff who have the responsibility of greeting and meeting people at the front counter are not as conversant or are unable to answer all questions posed to them. Then, they have to put people off or have them wait while they search for the answer or someone else to help them. The new person arrives and the taxpayer starts over from scratch. This is not a wise situation to have in your office. The staff at your counter should be the most knowledgeable, informed people in the office. It is a mistake to man that position with new hires or those who have the least experience in the field. While it may not seem like the most efficient use of resources, it will serve you well in the long run to have very knowledgeable, friendly, helpful, well trained staff greeting your taxpayers in order to generate a 'wow' experience for them.

Execute a brand - Work on developing an identity for your office much as retailers do with their products. Kohler bath fixtures, Mercedes Benz cars, Wal-Mart, Neiman Marcus department stores all have developed an image of what their products are and what they represent. Don't be lumped in with everyone else. Develop an image for your office. It starts with a pleasant working atmosphere, a place people will feel comfortable coming to to discuss their issues. The image concept then extends itself to always striving for quality, uniform assessments at the required statutory level of market value and making people feel they are always being treated fairly. Constantly strive to make your office a symbol for equity, fairness, quality, education, information and high levels of ethics.

Expedite - This relates to being sensitive to the busy schedules we all have and cutting through the bureaucratic maze government agencies have created. Help taxpayers get the information they seek quickly and efficiently. Do everything you can to minimize the number of trips they will have to make to your office. For example, if you can access deeds on the Internet, don't send seniors home to look for their deed copies for an exemption. This may in itself be a daunting task for them in addition to requiring a return trip to the office. Show people better ways to accomplish their goals such as how to find data on the Internet. Be proactive, offer information on how to appeal assessments or how to qualify for preferential assessments. Divulge office policies. Offer your knowledge and expertise to them; don't hide it.

Ensure problem solutions - Short of arbitrarily reducing assessments to placate taxpayers, do everything you can to help resolve problems. Passing people through multiple entities or levels of decision-making can be a frustrating process. It can actually cause people to dig in their heels, seeking more compensation or adjustments than they originally had envisioned. Market studies have indicated that people want a simple and clear problem resolution process. This may require giving staff authority to make assessment adjustments, when justified, when the assessor is not available to handle the problem personally. Experts say that training should focus on getting everyone to own the problem and not to pass it off to others. It has been found that when people step up to the plate and figure out the problem, that consumers' mind sets change from one of helplessness to "someone really helped me". All you have to do is become their hero.

Did you know?

According to research, four in five people will tell an average of three other people about a "wow" experience.

People over 50 liked being acknowledged and treated courteously more so than 18 to 30 year old consumers.

Younger people, 18 to 30, were more likely to recall a great retail experience.

IS MORE BETTER? TURNS OUT, PERHAPS

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Historically, the appraisal industry has relied upon only 3, sometimes a few more sales to serve as comparables when estimating the value of a piece of real estate or for developing adjustments. But has that been the best methodology to use? Does using such a small number of sales actually succeed in predicting a value that would be typical among all market participants? It seems some might be questioning the way it has always been done. What is being questioned is this, does it make sense to formulate value opinions using only a handful of sales while at the same time leaving out most of the market activity from the analysis. How reliable are value conclusions when the vast majority of market transactions have literally been ignored? The danger of estimating value by subjectively selecting a small number of sales is that the value conclusion derived from that sample might be based on the wrong few sales and might suggest a value that would not be similar to that which would be derived from using a much larger sample. Mass appraisers have been basing values on *all* sales occurring within a defined neighborhood during a defined timeframe for years. The thinking is perhaps shifting our way. Using limited data to infer trends might represent the method that *least* represents market behavior or the actions of the entire range of participants. See the U.S. Court of Appeals case below.

DEFINITION

Law of Large Numbers

In statistics, it is a law stating that a large number of items taken at random from a population will (on the average) have the population statistics. Stated differently, the theorem that the average of a large number of independent measurements of a random quantity tends toward the theoretical average of that quantity. See the case below.

DECISIONS, DECISIONS: FROM THE U.S. COURT OF APPEALS, 7TH CIRCUIT

U.S. Court of Appeals appears to endorse mass appraisal techniques over traditional appraisal methodologies

Note: Article source: Peter F. Colwell, PhD, John A. Heller, JD, and Joseph W. Trefzger, PhD, "Expert Testimony: Regression Analysis and Other Systematic Methodologies," *The Appraisal Journal* (Summer 2009): 253-262.

On May 8, 2008, the U.S. Court of Appeals for the Seventh Circuit rendered its decision in an easement condemnation case called, *Guardian Pipeline, L.L.C. vs. 950.80 Acres of Land, et. al. 525 F.3d 554 (7th Cir. 2008)*. Here's a brief summary of that important case.

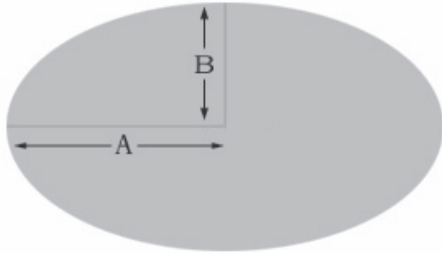
In 2001, Guardian Pipeline commenced construction on a natural gas transmission pipeline that was to run from Joliet, Illinois to Ixonia, Wisconsin which had been certified by the Federal Energy Regulatory Commission. The company had negotiated for the permanent and temporary easements it required from hundreds of property owners in the Illinois section of the route. However, approximately 80 property owners refused all offers and the company subsequently initiated condemnation proceedings as allowed by the Natural Gas Act in District Court in Chicago. The court allowed construction to proceed while at the same time it also left for future determination of just compensation Guardian would be required to pay for the easement rights. A commission was formed to conduct evidentiary hearings for the purpose of recommending the proper compensation for each property owner. Hearings were held over the course of 76 days between 2003 and 2005. Both parties presented extensive expert appraisal testimony concerning the effect on value pipelines would have on the affected properties. The record consisted of 12,500 pages of testimony and exhibits. Chief Judge Frank Easterbrook wrote the court's opinion and essentially rejected all of the arguments of the landowners to increase compensation and upheld the lower court's ruling on compensation.

But that is not the interesting part of the case. What is fascinating are Judge Easterbrook's comments concerning the amount of resources expended by both parties when providing the commission information on

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FORMULA FORUM

Area and perimeter of



We all know the area of a circle is Pi times the radius squared. Mathematically, it is represented as follows:

$$A = \pi r^2$$

But what if you had a building permit for an in-ground pool and upon turning the corner at the rear of the house you were confronted with a new swimming pool that looked like the shape to the left? What measurements would you need to take and how would you calculate the area and the perimeter?

You would start by measuring the minor or shortest axis of the shape and dividing it in half in order to determine distance "B". Then measure the longest or major axis, divide it in half to calculate distance "A". Then simply use the following formula:

$$A = \pi AB$$

The exact formula for calculating the perimeter of an ellipse is very complex but the Indian mathematician Ramanujan devised this very close approximation.

$$P \approx \pi \{ 3(A + B) - \sqrt{(3A + B)(A + 3B)} \}$$

DECISIONS, DECISIONS (FROM PAGE 3)

matched paired sales analyses by appraisers who were trying to support their respective positions that these pipeline easements had on market value. The judge said in part:

What puzzles us is why both sides were fixated on pair-wise comparisons, that is, matching each subject parcel with a supposedly "comparable" parcel that does not have a transmission-corridor easement, appraising that parcel, and then comparing the appraised value of the "matched" parcel with the appraised value of the subject parcel with a pipeline easement. That process is full of problems. No other parcel will be identical to the subject parcel except for its lack of transmission-corridor easement. Location and other attributes always differ setting the stage for debate about whether an appropriate comparison has been selected.

A different approach would be to gather data about the actual selling prices of real estate with and without transmission-corridor easement and use these data to determine how much the easement reduces the value of real estate in real transactions. *The law of large numbers would make up for the lack of closely matched comparison pairs.* (Emphasis added) How many feet of transmission easement encumbers a parcel is a continuous variable and could be one independent variable in a regression. Using real transaction prices reduces the role of guesswork. *Although no one suggested such an approach in this proceeding, litigants should keep it in mind for the future, as it has the potential to be faster, less expensive, and more accurate than a parade of witnesses offering estimates that cannot be verified.* (Emphasis added)

The judge is in fact suggesting a more efficient and more accurate methodology for valuation testimony in the future. A methodology that actually is an accepted mass appraisal paradigm. In fact, the authors of the article state:

Judge Easterbrook's proposed new approach – questioning the use of typical adjustment factors derived from matched pair comparisons, and embracing multiple regression analysis as a faster more accurate alternative – is so sensible, and long overdue, that it seems likely eventually, to assume an important role in adjudicating such cases. Appraisers, in turn, will need to become proficient in multiple regression methodology and, when testifying as expert witnesses in cases involving easement takings or other adjudicated valuation issues, be able to explain their analysis and data in a manner that is admissible in evidence.

It seems, mass appraisal is finally being recognized as an efficient, inexpensive, yet accurate and desirable system of valuing real estate.