

Testimony of Tyler R. Brown, MAI
President Connecticut Chapter of the Appraisal Institute, 2012

Regarding 5417: AN ACT CONCERNING BROKER PRICE OPINIONS
Committee on Banks
Thursday, March 15, 2012

Co-Chairman Duff, Co-Chairman Tong and Members of the Committee,

My name is Tyler Brown and I am here today both as the 2012 President of the Connecticut Chapter of the Appraisal Institute and as a concerned citizen of the State of Connecticut.

In terms of my background, I have a Master of Science in Real Estate Investment Analysis from the University of Wisconsin, which I received in 1988. Since that time, I have nearly 25 years of experience in commercial real estate fee appraisal, investment sales brokerage and investment management.

I do not currently work as a fee appraiser, nor have I ever worked in the residential appraisal market per se. Rather, I am a commercial appraiser by training, and am currently employed in Hartford, Connecticut as the Equity Valuation Manager for Cornerstone Real Estate Advisers. Cornerstone is the ninth largest real estate investment manager in the world. We currently have approximately \$32 billion in assets under management.

In addition to being Chapter President and an MAI, I am also the 2012-2013 Chair of the Valuation Committee at NCREIF (National Council of Real Estate Investment Fiduciaries).

From the perspective of both my own background and the professional Association that I represent here in Connecticut, I am here today to speak against House Bill 5417, "*An Act Concerning Broker Price Opinions*".

In summary, in working for a firm that engages fee appraisers regularly, there is no instance in which Cornerstone our clients would substitute a broker price opinion as an alternative to a third party appraisal. Investment managers and clients alike are quite clear that these represent two different perspectives for discussion, and they are not to be confused.

Within the investment management world, appraisers are considered to be independent and without conflict of interest. As a result, the literature that governs my industry is filled with references to appraisal requirements, and not BPO requirements. Client investment management contracts typically have similar language.

So as a starting point, it's not only my professional perspective as an appraiser, but as an industry participant that I suggest to you today that allowing BPO's to substitute for appraisals is an approach that is inconsistent with the expectations of the market.

With that being said, my opposition to the bill is specifically founded in several factors, including:

- education
- competency
- consumer protection
- conflict of interest

First, in terms of education, appraisers are required to complete a rigorous coursework of both classes and field experience before becoming state licensed. By enacting these requirements, state governments attempt to ensure that the best possible quality and understanding of appraisal principals are fully incorporated into the report we produce. Needless to say, given our education and experience, we feel that appraisers are clearly the best source for appraising real estate. If brokers want to perform appraisals, I would maintain that they should complete the same coursework. Should they do so, they are appraisers.

Second, with regard to competence, real estate sales agents can are often very involved in the market, with a corresponding understanding of the market. Certainly, the expectation would be that brokers would understand the market to an even greater extent. But, as referenced in USPAP, the final measure of the credibility associated with an appraisal is the determination that the report are appropriate from the standpoint of an appraiser's peers.

I maintain that most sales agents, and in many cases brokers, would not be sufficiently familiar with appraisal industry practices to create a credible report – they know the market, but they don't know the industry. Appraisal industry practices are established by appraisers through active involvement in the field as well as feedback and review from contact with other appraisers. At the end of the day, we want "more" credibility in these reports. Allowing non-appraisers to complete them, and in some cases in a condensed report format, seems incongruous with basic process integrity.

Third, with regard to consumer protection, when it comes to estimates of value, there are no small decisions. As banks, owners and others make financial decisions, these documents are not routine paperwork – they clearly creep into the fabric of every business decision about the assets they describe. Consumers should be able to expect that the report they are using was completed appropriately, by a trained professional, and is prepared in a credible manner. Again, I think licensed appraisers are the best source for proving valuation.

Finally, with regard to conflict of interest, the reason the appraisal profession exists in the first place is to avoid both the actuality and the appearance of conflict. Brokers make their living on transactions, and pricing discussions are a key portion of their ability to entice clients to work with them. Optimistic price views at the outset of a client meeting suggest to some clients that a broker is "better". The temptation to puff value is considered a white lie in the brokerage business, but is a basic conflict of interest that we want to avoid in appraisals.

To conclude, my instincts and my professional experience tell me that we should let appraisers appraise assets, and let brokers sell them.

Thanks for your time, and I hope you will vote against this bill.