



CRACOW
UNIVERSITY
OF ECONOMICS

CRACOW UNIVERSITY OF ECONOMICS

RERUM COGNOSCERE CAUSAS ET VALOREM

The practice of appraisal report evaluation by professional organizations in Poland: results of research on the example of evaluations of court experts' opinions determining the reduction of the value of real estate in RUAs of airports

Main presenter: prof. Iwona Foryś

Co-authors: prof. Magdalena Habdas, Dr. Jan Konowalczyk

The project: *The Restriction of Negative Consequences of Noise Nuisance from Airports in Poland - implementation of research results into the economy* (given the names „Owl 2023”)

Schedule of presentation:

1. Introduction (purpose, scope, data)
2. Regulations of evaluating commissions
3. The court's evidentiary question for professional organizations as experts
4. Criteria for substantive evaluation of appraisal reports
5. Correctness and quality of evaluations of appraisal reports
6. Conclusions for the future

The working theses for the study were formulated as follows:

- Evaluation of appraisal reports performed by professional organizations failed as an important element of the system of corrections of errors in the economy concerning the control by associations of the evidentiary value of expert opinions carried out under the authority of Article 157 of the Law on Real Estate Management (REM).
- Rather, after the issuance of the evaluation, the methodological problems are aggravated and the authors of the appraisal reports do not receive any support to improve the methodology used.
- Recipients of appraisal report evaluations do not even receive information indicating the legitimacy of initiating other directional actions aimed at restoring correct compensation of damages.

The study concerns the methodological analysis of the effects of the evaluation activities of associations:

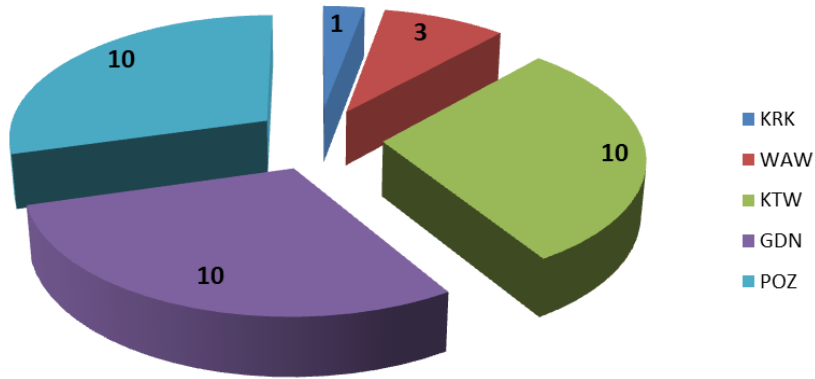
- in 33 cases of appraisal report evaluations made for the purpose of determining compensation for the diminution of the value of real estate claimed under Article 129(2) p.o.ś. (court cases - lawsuits for payment) and 1 case of assessment by the KOZA, in which evaluation committees operating within 8 associations issued evaluations of appraisal reports made for the purpose of determining compensation for diminution in the value of real estate;

and

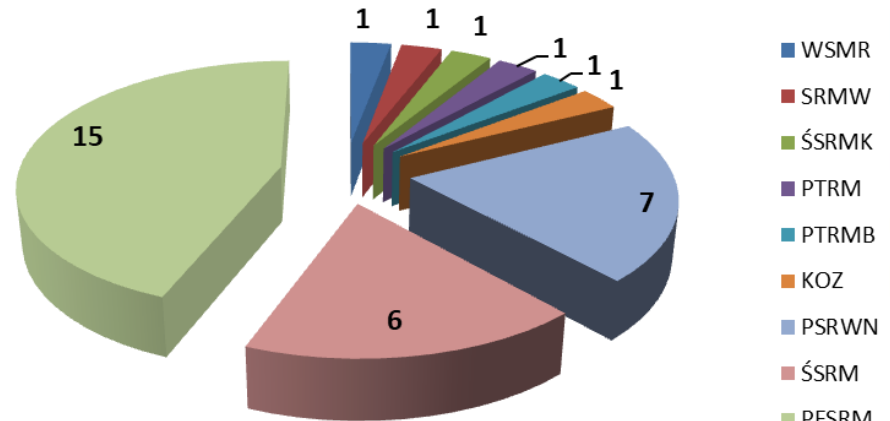
- evaluation of the bylaws of the evaluation committees of selected associations of real estate appraisers, including all the associations that issued the evaluations under review.

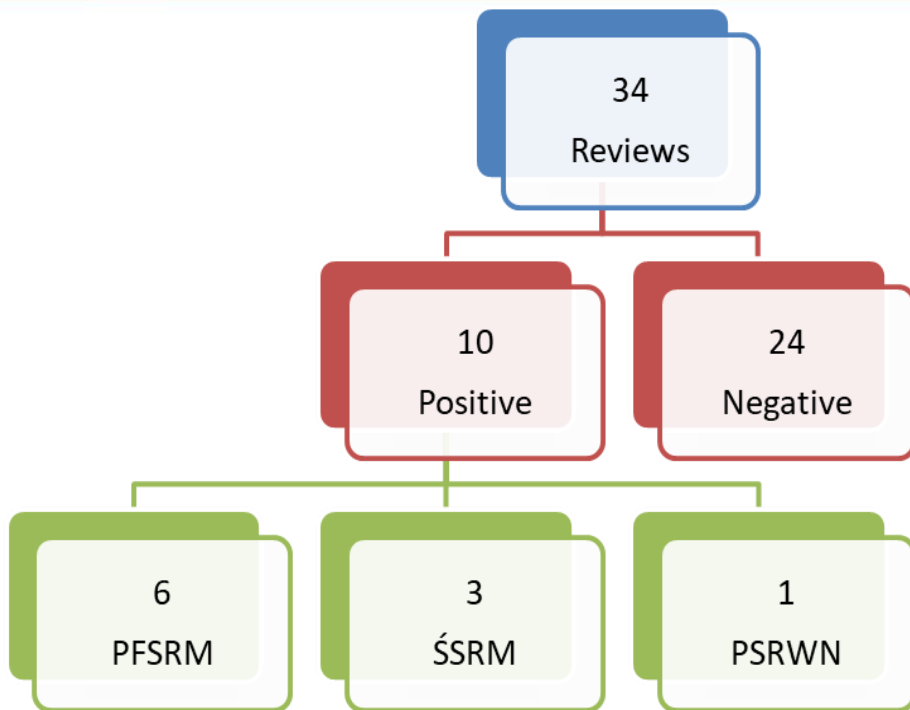


Number of court cases



Number of reviews





The structure of the reviews

There was a case of two appraisers who appeared (in separate cases) in dual roles.

The first appraiser, after issuing the evaluation (as a member of the team), was also an author of an appraisal report that was subject to evaluation by a separate evaluation team.

The second appraiser, after receiving a negative evaluation of his own appraisal report, performed evaluations of two reports regarding the same type of property and purpose (as team leader and team member).

Conclusions from the examination of the regulations of the evaluation commissions:

- Each regulation includes a description of what the assessment of the validity of the appraisal report consists of, and how the correct and incorrect evaluations are justified with its variants of defective or incorrect evaluations. The details of this description vary greatly
- The bylaws of most commissions, point to the law and professional standards. They present similar scopes for evaluating correctness, which concern the formal content of the appraisal report or the valuation process. Key words like "correctness", "reasonableness", "adequacy", "appropriateness" "adequacy", are used here.
- Only in the case of SRMW is there an additional indication of general valuation principles, which formally allows reference to general knowledge or principles of valuation theory.



The main conclusions of the court evidentiary question research:

- None of the questions restricted professional organizations as to how to perform the evaluation and the scope of the valuation methodology analyzed.
- In no case did the question identify the main problems to be solved.
- Appraisals whose evidentiary value has previously been assessed at the formal level with a directional proclamation by the court should be submitted to professional organizations for evaluation.
- The evidentiary questions for the professional organizations were uniform and formal in nature, pointing to the provision of Article 157 ugn.



Analysis of valuation report evaluation methodologies used by professional organizations

We investigated the main conclusions of evaluated appraisal reports in groups:

- positive and conditionally positive evaluations
- negative evaluations

as well as cross-analyses.

Cross-comparison of positive and negative evaluations made it possible to demonstrate the problem of the lack of uniformity of the evaluation criteria used.



The main conclusions of the study of the methodology of appraisal reports used by professional organizations:

- Lack of a standardized form of the evaluation commission document.
- The appraisers used different methods for determining the reduction in value for the same properties and accepted different reasons for the difference in value that occurred. Despite this, the reports were found to be correct in this part.
- Making a "technical" assessment on the basis of the methodological solutions used in the appraisal report, without evaluating the assumptions of the differentiation methodology.
- Positive evaluations of professional organizations in cases in which objective evaluation criteria have been replaced by subjective views of evaluation teams and their illegitimate and methodologically incorrect interpretations of Notebook 1.
- Arbitrators' unauthorized handling of legal considerations while omitting the required assessment of the correctness of the valuation basis adopted in the appraisal reports.

Cross-examination of the methodology used in evaluations of appraisal reports

The comparisons included 10 appraisal reports in three homogeneous groups, divided into groups according to the:

- same type of property,
- methodologically homogeneous,
- made by the same author in the same RUA, which were evaluated by different associations.



Main observations:

- Appraisal reports made using the same methodology were evaluated differently.
- In the field of valuation methodology, no evaluation dealt with the area of conceptualization regarding the basis of value.
- All positive evaluations issued, have been limited to administrative reviews.

Contradictory and inconsistent evaluations by commissions and professional organizations don't give the appraiser clear and useful guidance on how to properly perform professional activities for the purpose under review. Also – no guidance for the review user.



GENERAL CONCLUSIONS

- 1) With significant deficiencies and defects in the regulations for the evaluation of appraisal reports, particularly regarding market value diminution, all the infirmities associated with the lack of professional standardization, including standardization of evaluation have been revealed.
- 2) The regulation of the professional standard of "performing all activities" has become particularly risky for real estate appraisers in the case of incomplete or outdated professional standards.
- 3) Adopting the existing organization of appraisal report evaluations, it is necessary to establish through regulations or professional standards "what the evaluation is about,,
- 4) The results of the study indicate that through the evaluation of appraisal reports performed under Article 157 of the REM Act, it is not possible to achieve the goal of correcting the erroneous methodology for determining the reduction in value used by experts.



The project: ***The Restriction of Negative Consequences of Noise Nuisance from Airports in Poland***, given the names: ***“Owl 2020”*** (2019-2021) and ***“Owl 2023”*** (2021-2024) involves independent scientific research carried out by the Cracow University of Economics as a part of the basic task of pursuing scientific activities, rendering research services and transfer of knowledge and technologies to the economy. In 2016, the research team initiated the first scientific research on the subject matter of compensations relating to the public intervention implemented on residential property markets in airport vicinity. The unit implementing the research in the years 2016-2019 was the University of Economics in Katowice.

The research team of the SOWA 2023 project is composed, beside the employees of the implementing unit, of the academic staff from the following universities: University of Silesia in Katowice, University of Szczecin, University of Warmia and Mazury, University of Gdańsk; Silesian University of Technology in Gliwice, University of Economics in Katowice, AGH University of Science and Technology in Krakow and economic practitioners unaffiliated in academic institutions. The project is implemented for five national airports (Warsaw Chopin Airport, Krakow Airport, Gdansk Lech Walesa Airport, Katowice Airport Poznan Airport and for the Association of Regional Airports (ZRPL), which supports publications popularizing and presenting research results.

For more information about the project and study announcements, visit: <https://ie.uek.krakow.pl/kenipi/projekty/>.

Prof. Iwona Forys
(University of Szczecin, Poland),
iwona.forys@usz.edu.pl

Co-authors:
Prof. Magdalena Habdas
(University of Silesia, Katowice, Poland)
magdalena.habdas@us.edu.pl

Dr. Jan Konowalczyk
(Cracow University of Economics, Poland)
jan.konowalczyk@uek.krakow.pl





CRACOW
UNIVERSITY
OF ECONOMICS

THANK YOU

CONTACT

Cracow University of Economics

Rakowicka 27

31-510 Krakow, Poland

www.uek.krakow.pl

