The 25th Annual American Real Estate Society (ARES) Meeting was held in Monterey, California, April 1–4, 2009. Over 200 papers and panels were presented by academics, PhD students, and researchers, as well as by valuation practitioners. As with past meetings, the presentations covered a vast array of real estate topics, including portfolio management, real estate cycles, housing prices, real estate investment trusts (REITs) and public real estate market dynamics, real estate education, and environmental issues. There were a number of topics of interest to those in the appraisal profession, ranging from various case studies on environmental issues, to value theory, office cycles, and foreclosure sales. This year, the Appraisal Institute was a cosponsor with ARES in presenting five timely and important panel sessions on the day preceding the full ARES convention. Given today’s volatile real estate market, the Appraisal Institute’s panels closely examined issues including mark-to-market, financially distressed assets, and market analysis and forecasting. Overall, the theme of this convention clearly focused on the valuation of real property in a very turbulent time. The following is a selection of just a few of the many valuation-related abstracts of papers presented during this year’s meeting. If you would like additional information on this year’s presentations or next year’s meeting, visit the ARES Web site at www.aresnet.org.

What We Know About Shopping Centers
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Suburban shopping centers were the most successful retail establishments of the twentieth century. They almost completely supplanted the central downtown department store retail businesses, which had been the primary retail establishments of the nineteenth century. Urban economics has explained to a great extent the reasons for shopping centers’ success over the ways retailing had formerly been done. It all has to do with what is called the internalization of inter-store externalities. All aspects of shopping center retailing are affected, from the ways tenant leases are drawn up, to how tenants are charged rents, how space is allocated to various stores in the shopping center, and where the stores are located, both with respect to the mall generally and with respect to other stores in the mall. This article takes the reader through the research on shopping centers, explaining issues that were especially important and how initial research led to further findings and the general resolution of the problem.
The Housing Bubble and Resulting Mortgage Crisis
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This paper describes the development of a U.S. mortgage bubble in the last dozen years and the role it played in the doubling of real house prices. The behavior of the government-sponsored enterprises (GSEs) and private-label securitization of junk loans are emphasized. A number of similarities with the U.K. experience are noted. We conclude with some thoughts on moving forward.

The Transition from Correlation to Reconciliation: Solving the “How Many Approaches Are There?” Dilemma
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An excellent review of appraisal literature regarding the development of appraisal theory offered in Paul Wendt's text, Real Estate Appraisal Review and Outlook, points out that over time various economic and valuation writers have advocated that there exists anywhere from one to seven so-called “approaches to value.” Most appraisal texts include a discussion of the “appraisal process” that includes discussion of the “application of the three approaches” (cost, market, and income) and the “correlation” of the three separate value estimates to a single estimate of value. The argument of just how many approaches exist and how they can or should be correlated with one another typically continues today under the general debate title of “Should the traditional appraisal process be restructured?” Some think such a debate is a futile exercise in semantics. However, the history of thought regarding this topic presented by Wendt and others should prove interesting to the true student of real estate appraisal. A brief summary of the findings of Wendt and others, therefore, is presented as a thought piece to address the question of how many approaches, perhaps, there should be.

Daubert and Qualifications of the Appraisal Expert Witness
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In 1993 the case of Daubert v. Merrell Dow Pharmaceuticals, Inc. set a new and far-reaching standard for the admissibility of expert testimony as required under Rule 702 of the Federal Rules of Evidence. Under Daubert the court acts as a gatekeeper in the admission of testimony. The court considers whether testimony to be presented is using a theory that is, or has been, tested; has been subject to peer review and publication; if there is a known rate of error; and if the technique in question is generally accepted in the relevant scientific or technological community. Prior to Daubert the courts relied upon a narrower interpretation of Rule 702 of the Federal Rules of Evidence, also known as the Frye rule. The Frye rule qualifies an expert witness based upon their knowledge, skill, experience, training, and education. It also looks at testimony as to its general acceptance in the scientific community. Prior to the admission of testimony, the court must now consider: (1) whether the theory has or can be tested; (2) if the theory has been subjected to peer review and publication; (3) if there is a known rate of error; and (4) general acceptance of the technique in question. Since the ruling in Daubert there have been two primary arguments when applying the Daubert test to expert testimony in real estate situations: (1) the qualification of expert witnesses and (2) the methodology used. In this paper we examine cases involving real estate valuation situations and the qualification of real estate expert witnesses.

New Evidence on the Green Building Rent and Price Premium
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This paper investigates the effect of voluntary eco-certification on the rental and sale prices of U.S. commercial office properties. Hedonic and logistic regressions are used to test whether there are rental and sale price premiums for Leadership in Energy and Environmental Design (LEED) and Energy Star-certified buildings. The results of the hedonic analysis suggest that there is a rental premium of approximately 6% for LEED and Energy Star certification. A sale price premium of approximately 35% was found for 127 price observations involving LEED-rated buildings and 31% for 662 buildings involving Energy Star-rated buildings. When compared to samples of similar buildings identified by a binomial logistic regression for LEED-certified buildings, the existence of a rent and sale price premium is confirmed albeit with differences regarding the magnitude of the premium. Overall, the results of this study confirm that LEED and Energy Star...
buildings exhibit higher rental rates and sale prices per square foot controlling for a large number of location- and property-specific factors.

**The Effect of Foreclosures on Residential Property Values**

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This paper focuses on the extent to which foreclosures have had a detrimental effect on the price and value of single-family residential properties in several subdivisions in south Indianapolis over a period from 2002 to 2008. Based on an analysis of sales in this area, properties sold out of foreclosure have price discounts of approximately 20% relative to otherwise comparable sales not involving a foreclosure. Further, there appears to be a correlation between these effects and declines in prices for nonforeclosure sales as well. Next, we examine the relationship between days on market for the foreclosures and find that although foreclosure sales have shorter marketing periods, the foreclosure price effect and days on market may proxy each other in the multivariate statistical models. Lastly, to at least partially address a concern with spatial autocorrelation, we test the findings using a set of locational codes and find that the price discount remains elevated.

**The Neighborhood Impact of Subprime Lending, Predatory Lending, and Foreclosure**

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The neighborhood impact of subprime lending, predatory lending, and foreclosure has been estimated at 2%–10% of home value. Further, as some neighborhoods see a concentration of foreclosures, the number of distressed properties in close proximity to a given property also has an impact on home value. Empirical evidence suggests that home values decline by 1% on average for each nearby distressed home. Extrapolated across the national housing stock, this translates into a 1%–10% (or $5,000 average) spillover effect. We discuss current research in this area and identify gaps in the literature in the wake of the subprime mortgage crisis.

**Identifying Transactions Where Price and Value Diverge to Improve Data for AVM Residential Valuations**

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Transactions data may not always reflect efficient market values. In residential real estate, mispriced transactions data may reflect, in addition to simple data entry errors, limitations of buyers' and sellers' information, judgment or bargaining power, “rational bubbles,” non-arm's-length sales, or random price variation. It would be beneficial to lenders, appraisers, and other market participants if mispricing could be identified and these transactions eliminated from data used to infer market values. It may be possible to improve automated valuation model (AVM) or computer-assisted mass appraisal (CAMA) value estimates by weeding out atypical outlier transactions. We propose an approach for identifying individual transactions suspected of revealing mispricing rather than reliable market values useful for appraising similar properties. We test a method to best choose comparable transactions using an iterative, heuristic AVM algorithm that roughly mimics the thought process of an appraiser. We test whether eliminating outliers improves results by comparing mean absolute percent error distributions obtained with full versus trimmed samples. The method we propose identifies outliers in error distributions by comparing multiple valuations to market prices using various permutations of subject properties and comparable sales in a submarket database.

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