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Appraising the transition to a down or up market

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I'm going out on a limb and calling a real estate bottom in my portion of Vermont, which includes the four southern counties. Appraisers often struggle with inflection points. At the top and bottom of any cycle there is, by definition, no defined change. Those factors such as sales volume, list to sell price ratios, days on market, months of inventory and land prices will actually stagnant as the market turns. At these points the risk of an appraiser coming to an incorrect value conclusion is high. Using only historical trend analysis will actually direct the value conclusion in the opposite direction of the market.

Appraisers with the tools to complete a fundamental demand analysis, track changes in the market statistically, watch for those leading indicators and listen to the pulse of buyers and sellers are best equipped to prepare supported valuations at this time. When change is steady, such as a declining market or an increasing market, even the dullest appraiser may conclude a correct value. What could be easier; you find those most similar sales, apply the rate of change, and it's had to be wrong even if the methods employed are not correct. However at the peak and in the valley these simple calculations will be dead wrong, and at the current point in the cycle will actually under predict value.

If you thought appraising the transition to a down market was tough, you have not seen anything yet. I remember the first time our office called the change to a declining market in early 2009 (in general, Vermont real estate is slightly behind the rest of New England). It was press send on the email to the client and wait for the phone to ring. Without fail, forty minutes later the loan officer spent an hour with me explaining how I did not understand my market very well and sarcastically thanking me for the expensive birdcage liner. To steal a line from a well-known appraiser, "I'm OK with that." Appraisers are not advocates and my job is not to convince a client to make a loan. I may only present the results of my analysis that support my conclusion and over the past four years we have taken considerable time to pare our client list to those who value the research, analysis and support we provide along with our opinion.

Appraising the transition to an up market will be even more painful. Those most basic historical-only analyses will support a declining market and result in incorrect value conclusions well below the current activity between buyers and sellers in the market. At the same time many metrics in the market will stagnate and appear to show no direction. However highly skilled and attune appraisers, such as those trained and designated by the Appraisal Institute, have the tools, skills and, most importantly, confidence to make the correct call. Appraising in a down market is easy; appraising in an up market is easy; appraising in times of change between the two is brutal. You may wish to pare your appraiser list to those best suited to produce a correct value conclusion in the coming market.

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